
BANKING

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IN THIS WORK WE HAVE ENDEAVORED TO GIVE A POPULAR HISTORY OF BANKING AS A COMMERCIAL INSTITUTION, AND HAVE PAID NO ATTENTION TO ITS THEORY OR PRACTICE. WE HAVE ENDEAVORED TO GIVE REFERENCES TO ORIGINAL AUTHORITIES TO ASSIST THOSE WHO DESIRE TO GO DEEPER INTO THE SUBJECT.

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BANKING

A SHORT HISTORY

by Franklin L. Chase and
Jno K Allen

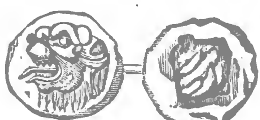
Profusely illustrated with accurate engravings of the coins of the different nations of the earth from the time of the "First Year of the Redemption of Israel" to the present day, and containing the cards of the principal Banking Institutions of America. : : :

A SHORT HISTORY OF BANKING.

CHAPTER I.

ANCIENT BANKING.

BANKING is an outgrowth of commerce. In its most primitive form—money-changing—it assumed the first function of banking demanded by the times, and as commerce increased between man and men and between country and countries, other functions developed as necessity required, until to-day the business of banking occupies a proud position among the institutions which have contributed to the development of the world.



GOLD STATER OF MILETUS, ABOUT 800 B. C.

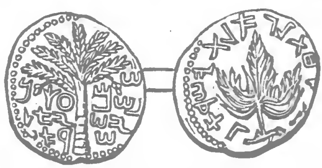
The modern word bank seems to have been derived from the German word "banck," which was introduced into Italy by the dominant Germans in the twelfth century, and became Italianized into the word "banco," which was used interchangeably with the word "monte," to mean a collection of credit or money.*

The late George Smith, during his researches among the ruins of Babylon, found tablets† which are the com-

*Macleod's "Elements of Economy," vol. i., p. 375.
†London *Bankers' Magazine*, 1877, p. 720.

mercial instruments or checks and notes of a Babylonian banking firm, trading under the name of the founder, Egibi. The firm appears to have been, practically, a national bank of Babylonia, and its transactions were of the most extensive character. Mr. W. St. C. Boscawen has studied these tablets closely, and publishes the following interesting information* concerning them:

"Sula, son of Zirukin, son of Egibi, appears as contracting party in the third year of Nebuchadnezzar, and continues to be at the head of the firm until the twenty-third year of that monarch. In the fifteenth year of this reign, his son, Nabuakhi-idin, is taken into the firm and appears in company with his father as contracting party

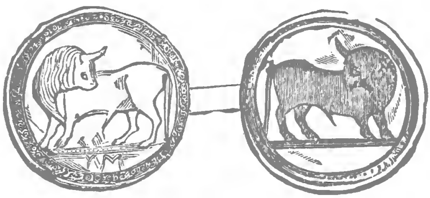


SHEKEL OF SIMON, PRINCE OF ISRAEL; round the vine leaf is "First year of the redemption of Israel."

"The tablets give us a complete succession of annual transactions from the first of Nebuchadnezzar to the thirty-fifth of Darius. There is one tablet dated in the fourth year of Nabupaluzar (Nabopalassar); tablets dated in the reign of this monarch are very rare. By means of a lunar eclipse mentioned by Claudius Ptolemaeus as taking place in the fifth year of Nabopalassar, we are enabled to fix the date of this year to B. C. 621; this gives B. C. 625 as the first year of this monarch. From this date, for more than a century, this bank appears to have carried on its business regularly, but in the month Abb [the eleventh month, or July of the Jews.—Ed.] B. C. 516, the

* Dean's "History of Banking and Banks," p. 3.

revolt of Aracus against Darius took place, the firm of Egibi was unable to transact any business owing to the

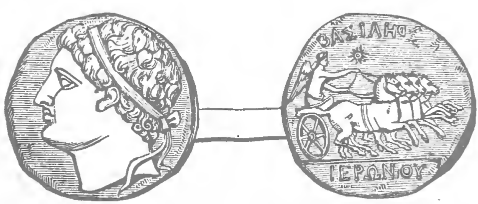


DRACHM OF SYBARIS, 600 B. C.

revolt at Babylon, and the history of this remarkable bank cannot be traced any further."

TETRADRACHM OF ALEXANDER I. OF MACEDON, 500 B. C.

In Greece, money-changers formed a distinct class of business men as early as the fourth century before Christ.* It was their custom to receive money from depositors and

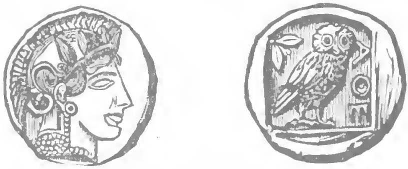


DRACHM OF HIERON OF SYRACUSE, 478 B. C.

to loan it to others at rates of interest varying from ten to thirty-six per cent. A portion of their income was derived

* Boeckh's "Public Economy of the Athenians."

from premiums received for exchanging coins which floated to Greece from other countries. From Plutarch it is learned that discount was known to the Athenians, and the rate of discount was often made so excessive as to



ATHENIAN DIDRACHM, 470 B. C.

bring some money-changers into disrepute. This was possible under the Attic law which permitted every lender to charge as much interest as he chose.

SYRACUSAN TETRADRACHM OF DIONYSIOS, 406 B. C.

Money-changers as a rule maintained a high credit and were so implicitly trusted that transactions with them were

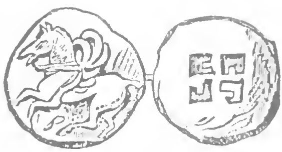
DIDRACHM OF SYRACUSE.

often carried out without witnesses. Of the best known of these primitive bankers was Pasion, whose profit from

his exchange bank was one hundred minas annually, equivalent to $1,710. When Pasion died the bank was assumed by Phormio, who paid an annual rental of $2,736 for the office and business.

ATHENIAN DRACHM OF THE EARLIEST DATE.

Of forms of business more nearly approaching the state banks of later times we are not without examples in Greece. At New Ilion a bank seems to have transacted



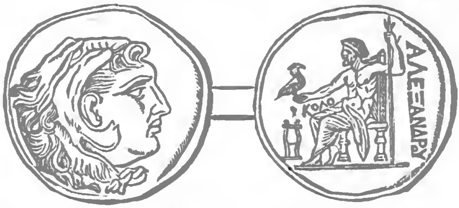
EARLY CORINTHIAN DRACHM.

the financial business of the state in the third or second century before Christ, paying ten per cent interest on money for public use.

TETRADRACHM OF MITHRIDATES, KING OF PONTUS, 337 B. C.

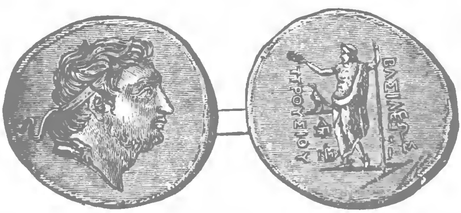
There are also evidences that the authorities in charge of the temple of Delos, and that at Delphi, loaned money belonging to them, but there is no evidence that

this money was that deposited for safe-keeping. In Byzantium a precedent for giving one organization the entire



TETRADRACHM OF ALEXANDER THE GREAT, 336 B. C.

control of the banking business may be found, where, in a time of financial embarrassment, the money-changing



TETRADRACHM OF PRUSIAS, KING OF BITHYNIA, 180 B.C.

business was farmed out to a single bank, and a penalty was inflicted for buying or selling money elsewhere, the

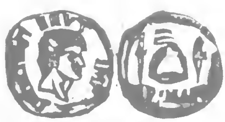
TETRADRACHM OF PERSEUS, THE LAST OF THE KINGS OF MACEDON, 168 B. C.

penalty being no less severe than the forfeiture of the sums bought or sold.

In Rome the Decemvirate made stringent laws against usury in the year 449 B. C., and fixed the maximum rate of interest at ten per cent. It is evident that

SHEKEL OF SIMON MACCABÆUS, 140 B. C.

such a law was called forth by the existence of the occupation of money-lending. In 346 B. C., the rate of interest was lowered to five per cent, and in 341 B. C., the



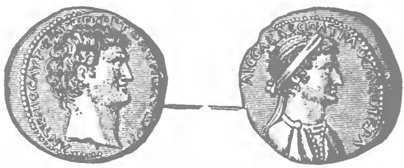
GOLD COIN OF BRUTUS, 509 B. C.

taking of interest was altogether forbidden, but the law being inoperative, interest was about this period established at one per cent per month.

FIRST BRONZE OF AUGUSTUS, 27 B. C.

The commerce which Rome had with the eastern and other countries, naturally created an influx of foreign coin, necessitating as in Greece, the class known as money-changers, whose stone stalls were located along both sides

of the Forum—the Exchange of Rome.* While the Romans seem to have adopted the simple methods of moneyed speculation from the Greeks, it is quite generally conceded that they enlarged and perfected the system until it became something more similar to modern banking



TETRADRACHM OF M. ANTHONY AND CLEOPATRA, 33 B. C.

than any system the Greeks had known. Indeed, Macleod† goes so far as to state that banking, as a technical business, was invented by the Romans. In our judgment this is a wrong use of the term, as such businesses as banking are but simple developments made necessary by

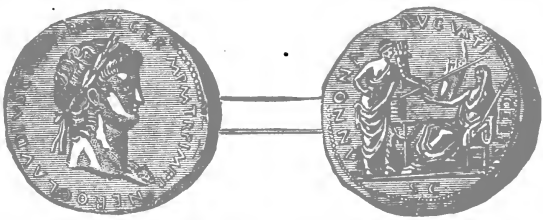
FIRST BRONZE OF TIBERIUS CLAUDIUS DRUSUS, 14 A. D.

the increasing volume of financial transactions, and while the Romans may have produced some business forms which were novel, it is not correct to say that they "invented" banking.

No branch of Roman commerce was more vigorously

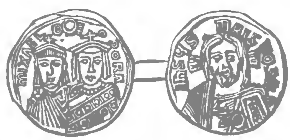
* Mommsen's "History of Rome."
† Macleod's "Theory and Practice of Banking."

prosecuted, according to Mommsen, than that of the money-lender and money-dealer or banker, the practice of placing large sums of money with a banking agent, who



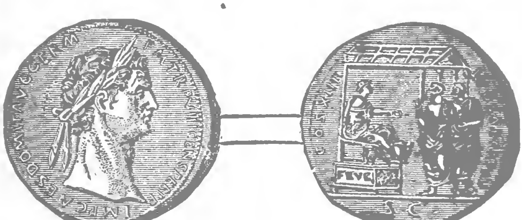
FIRST BRONZE OF TIBERIUS CLAUDIUS NERO DRUSUS, 54 A. D.

received and made payments, invested and borrowed, and conducted financial business at home and abroad, being



MICHAEL AND HIS MOTHER THEODORA, 57 A. D.
WITH BUST OF CHRIST.

fully developed in the time of Cato—209-149 B. C. With the activity of commerce which Rome enjoyed, bankers



FIRST BRONZE OF TITUS FLAVIUS DOMITIANUS, 69 A. D.

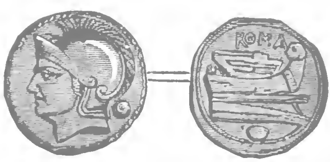
spread rapidly throughout the provinces and dependent states.

. To the literature of Rome we are indebted for contemporaneous references which inform us of the uses of banking terms still in use, such as "checque," "drafts," etc.

In Italy the money-changers were established at a very early period of the middle ages, and the city of Flor-

FIRST BRONZE OF NERVA, 96 A. D.

ence became a recognized monetary center. As early as the first quarter of the eleventh century, Florentine citizens loaned money to sovereign princes. In 1265 the money-changers of that city formed themselves into a guild.* It is probable that the business of the money-changers even at that early day was approaching the characteristic fea-

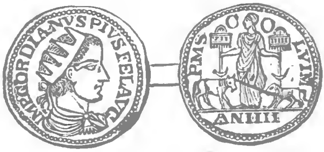


ROMAN UNCIA, OR ONE-TWELFTH OF THE AS.

ture of banking—the dealing in credit, as in 1300 the Mozzi and the Spini families are mentioned as being the bankers of Popes, and the last named as having a branch at Rome under the management of Nero Cambi. By 1378 banking operations in Italy had attained great importance,

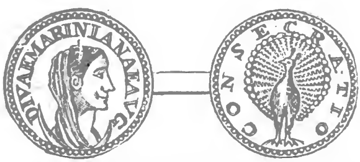
* Trollope's "History of the Commonwealth of Florence," vol. i, p. 170.

due to the necessary transmission of money from distant parts of Europe to the Pope's court at Rome and Avignon, and most of the banking business was in the hands of



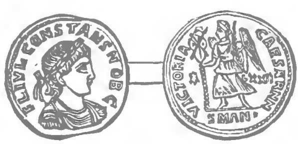
DENARIUS OF GORDIANUS III, 238 A. D.

Florentine citizens. The Strozzi were in later years, 1513 to 1534, bankers to Leo X. and Clement VII., accumulating wealth by their sagacity which is still enjoyed by



CONSECRATIO DENARIUS, OF MARINIANA, WIFE OF VALERIANUS AND MOTHER OF GALLIENUS, 253 A. D.

their descendants. About the middle of the fourteenth century the famous banking house of the Alberti had counters in Avignon, Bruges, Brussells, Paris, Siena



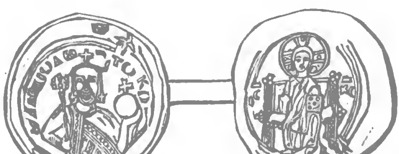
BRONZE OF CONSTANTINE I., 323 A. D.

Perugia, Rome, Naples, Barletta and Venice. Still greater than the Alberti were the Peruzzi and their associates, the Bardi. In 1346 the failure of Edward III., of England, to pay 1,365,000 golden florins, borrowed of the

Florentine bankers, caused a bankruptcy which seriously disturbed the entire commercial system of Europe. Later the Strozzi suffered serious losses by the king of France and the popes, but, in spite of these losses, the Florentine bankers regained their wealth through their lucrative business.

DOMINUS NOSTER ANASTASIUS, 490 A. D.

From 1414 to 1423 times were prosperous in Florence, and at that period seventy-two banks could be counted in the streets surrounding the Mercato Nuovo. From 1430 to 1433, seventy-six bankers lent the State 4,865,000 gold florins, but, although there were said to be eighty bankers in Florence at one time, there was no public bank.



ALEXIUS COMNENUS, 1081, A. D., WITH FIGURE OF CHRIST.

Mr. Henry Mann attributes the invention of bank-notes to the republic of Carthage,* but his testimony is not conclusive enough, being based on this statement of Æschines, the Socratic philosopher: "In a small piece of leather is wrapped a substance of the size of a piece of

* Henry Mann's "Ancient and Mediæval Republic," p. 19.

four drachms, but what this substance is no one knows except the maker. After this it is sealed and issued for circulation; and he who possesses the most of this is regarded as having the most money and as being the wealthiest man." Jevons* shows that leather was one of the earliest of circulating mediums, and was used without regard to any system of banking.

As early as 807, A. D., the Chinese are credited with the invention of the bank-note.† In that year the emperor exchanged all the money deposited in the public treasury by merchants and rich persons for notes, termed "flying money." It remained in circulation but three years in the capital, and became current only in the provinces.

CHINESE COPPER COIN.

In 960, A. D., an emperor revived the practice of giving notes for money deposited by merchants, and so great was the convenience of the notes that their circulation increased rapidly. In 997, A. D., there had been 1,700,000 ounces of silver exchanged for paper, while in 1021 the paper in circulation had increased to the value of 2,830,000 ounces. A company of sixteen rich merchants was then formed which was allowed to issue notes, payable in three years. The company was bankrupt upon the expiration of that time, and much suffering was caused by its failure to pay. The emperor then abolished the notes of this

* W. Stanley Jevons' "Money and the Mechanism of Exchange," p. 197.
† Macleod on "Theory and Practice of Banking," vol. i, p. 288.

company and prevented the formation of other joint-stock companies. After that the government only possessed the power to issue notes, which were made of the value of one ounce of silver. In 1032 these notes were circulating to the value of 5,256,340 ounces. Banks of this nature were subsequently established in every province, but the notes did not have inter-provincial circulation. To these notes, exchangeable for, and convertible into, money, is given the credit for being the first on record.

SILVER ITZEBU OF JAPAN

Chapter II.

EARLY BANKING.

In 1401 the "Tabla de Cambi" (Table of Exchange), was established at Barcelona, Spain.* The city funds were its guarantee, and it was established by the city authorities as an aid to commerce. Foreign bills of exchange were negotiated in it, and a loan business was carried on. It seems to have been the result of the assumption by the city of banking privileges which had been granted the cloth merchants in 1350.

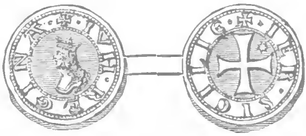
CROWN OF FERDINAND V., 1495 A. D.

In 1781 the bank of San Carlos was established at Madrid, as a national bank on a plan advanced by the minister of finance. Its capital consisted of 300,000,000 reals, divided into 150,000 shares. Profitable contracts with the government were secured and enjoyed until 1785, when they were taken away.

Bills of exchange followed what were termed "assignments." Authorities differ as to the date of their

* Capmany's "Historical Memoirs of Barcelona."

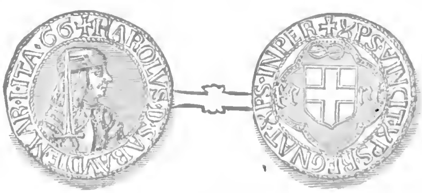
first use. By some they are ascribed to Lyons, France. Weber states that they were in use in 1171. Among the earliest ones preserved to the present time, are those issued from Milan on Lucca in 1325, from Bruges on Barcelona in 1404, and from Bologna on Venice in 1381. To the Italians we are indebted for many of the technical



JOHANNA QUEEN OF JERUSALEM AND SICILY, 1382 A. D.

terms used in banking, such as drafts, remittances, currency, sight, usance and discount.*

The first public bank in Italy was that established at Naples in 1565.† There had been sixty great bankers in Naples, but, notwithstanding they were obliged to deposit 40,000 ducats with the government as security, they fre-



TESTON OF CHARLES I., DUKE OF SAVOY, 1470 A. D.

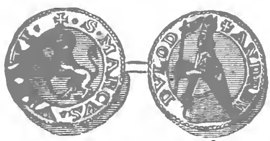
quently failed and caused great distress. On this account the government decided to establish a public bank to be known as the *Banco di A. G. P. et di Pieta.* Following this, several joint-banks were established—as the *Banco del Popolo*, in 1589; the *Banco dello Santo Spirito*, in 1591;

* Yeats' "Growth and Vicissitudes of Commerce."

† Macleod's "Theory and Practice of Banking," vol. i, p. 290.

the *Banco di S. Eligio*, in 1596; the *Banco di S. Giacomo*, in 1597; the *Banco delle Povere*, in 1600, and the *Banco de' SS. Salvatore*, in 1604. The private bankers were not able to withstand competition with the joint-stock companies and none survived after the last-named date.

Following closely after the establishment and growth of banking in Florence, the Bank of Venice was established. Nearly all writers place the date of the organization of this famous institution at 1171, but Macleod has pointed out that it was not organized until 1587. The confusion has arisen because of the fact that in 1171, the Venetian republic, to meet financial necessities, levied a

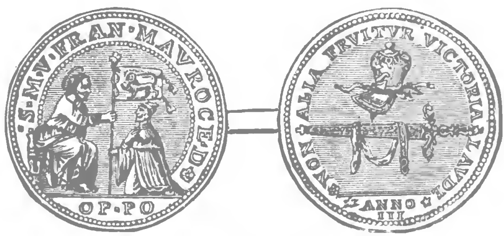


PENNY OF DOGE ANDREAS DANDOLO, 1343 A. D.

forced loan, bearing four per cent interest, with transferable stock, and managed by commissioners appointed in 1173. The loan was called the *monte vecchio*, and two similar ones following it, were termed *monte nuovo* and *monte nuovissimo*. The word *monte* has been translated bank, and thus these public debts have been termed banks, while, as a matter of fact, the public debt commissioners exercised no functions resembling banking.

The first bankers in Venice were two Jews who established themselves in 1400. Their success attracted other persons (particularly members of the nobility) into the business, but the usual failures followed until in 1587 the senate prohibited the nobility from entering the business, and established the Bank of Venice.

Merchants were invited to deposit their money in an office managed by the commissioners of public debt, for which they received credit on the bank's books. This credit was transferable and payable in bullion on demand. An act was passed requiring all bills on Venice to be paid



DOGE FRANCISCO MORISINI, 1690 A. D.

in bank money, which gave it a premium of about nine per cent. The bank transacted no business on its own account, but the money in its vaults was taken on various pretexts by the State, and in 1678, in 1691, and again from

CROWN OF LUDOVICUS MANIN—THE LAST OF THE DOGES.

1717 to 1739, it suspended payments. An attempt was made to raise a loan by creating credits on the bank's books, but the credits fell to a discount of twenty per cent as compared with specie, and the Government mortgaged a part of its revenue to collect a fund of "real current

specie" with which to purchase these transfer credits, by which means their par value was restored.

The Bank of St. George, in Genoa, occupied a most prominent position among the early influences which aided commercial development. As in the case of the Bank of Venice, however, most historians ascribe its establishment to a much too early date.

It was in 1148 that the Genoese Government incurred its first formal debt. The creditors chose from their number a council to watch over the debt due them and to secure its collection, the Government having conceded certain customs duties for a term of years in payment of the debt. Each one hundred francs of the debt was a share, and each creditor a share-holder. In this manner were numerous loans made by the Government, each loan being termed a "compera" and all the loans collectively being known as the "Compere of St. George." In 1252* these loans became so numerous as to require consolidation under one head, with a chancellor in charge. In 1302, so great had become the national debt, stringent regulations were enacted by which no future loan could be effected without the consent of the representatives of the existing creditors. In 1339 a popular revolution occurred at which all the old books of the "compere" were burned, and a new regulating commission was appointed. This has been mentioned as that of the origin of the bank, but it was simply a step further in consolidating the national debt.

In 1371 is recorded, in connection with the Bank of Genoa, the first known instance of the compounding of interest. Francesco Vivaldi gave his shares in the Com-

* Bent's "Genoa," pp. 220–241.

pere of St. George to the compere, the interest on them to be annually applied to the purchase of other shares, until a sum should be collected in addition to the principal, which should be sufficient to pay off one of the specific loans. This done, the process should be repeated. Others followed in Vivaldi's steps, and the credit of the compere grew apace.

In 1407 wars had so pressed the State into seeking money advances that an entire reorganization was decided upon. Nine men drew up a plan on which all the shares were reunited, and the interest for all was made seven per cent. New officers were selected and the organization renamed the Bank of St. George. It possessed peculiar powers of self-government entirely independent of the State, and in this year a new constitution was given it, under the provisions of which eight "protectors" were elected, each of whom was required to have an interest in the bank of not less than one thousand florins. These directors were given the offices of President, Treasurer-General, Superintender of the sale of shares, three Judges and two Secretaries, each of whom remained in office one year. Over these was the General Council of four hundred and eighty, and to this every holder of ten or more shares, and over eighteen years of age, was eligible. In return for money advanced by the bank to the Government, various colonies and provinces were made over to the bank as pledges for repayment.

In 1675, the directors of the bank saw the necessity of adopting some more convenient methods of doing business. The old title of "compere" then disappeared, and the institution became known strictly as a bank. It is from this year that Macleod ascribes the establishment of the Bank of St. George, because it first adopted functions

of modern banking, such as the negotiating of loans and the deposit and withdrawing of money, but no history of banking would be complete which failed to give an outline of the fiscal measures from which modern banking grew.

In 1675 four branches were established in different parts of the city. Later the invading Austrian army, in 1746, carried away most of the gold belonging to the bank, seriously crippling it, but in a "monte of preservation," established by the bank in 1750, a record of all suspended payments was kept and they were paid after the Austrians left. After a time the people came to see that the complex arrangement by which the public taxes were collected and retained by the directors of the bank, was a species of tyranny, and the bank was obliged to surrender its privileges. As these were its sole source of income, the bank notes were found valueless, and the bank was ignominiously closed about 1798. Efforts to re-establish it were made in 1804 and 1814, but they were entirely unsuccessful.

In 1609 the Bank of Amsterdam was established under a guarantee given by the city. The causes which led to the creation of this bank were far different from those which caused the establishment of the banks at Venice and Genoa, which had their origin in forced loans by the Governments. The prominent position occupied by Amsterdam in international commerce, drew to its merchants the coinage of all countries, much of it worn and clipped. So marked was this influx of coin that the currency of Amsterdam was reduced about nine per cent below the value of newly-coined money, and, although money might be plenty in the city, merchants were frequently at a loss to secure enough of par value to pay their bills of exchange, the value of which, therefore, became uncertain.

The bank accepted all coin at its standard value, deducting a small amount for expenses of coinage and management, and gave a credit on its books for the amount. This credit was naturally termed bank-money. It possessed a constant value and was worth more than money in actual circulation.

When the bank was created, it was ordained that bills drawn on Amsterdam, or bills negotiated in Amsterdam, of the value of six hundred guilders or more, should be paid in bank-money. This gave a uniform value to bills of exchange, and obliged every merchant to keep an account with the bank, in order to pay his foreign bills of exchange.

Other conveniences of bank-money brought it to a premium; the safety of it seemed to be assured; the city guaranteed its payment on demand; payments made in it were in the most convenient form, and the premium on it was lost if the deposit was withdrawn. The natural result was that immense sums of money found their way into the bank vaults, where they were popularly supposed to remain.

Adam Smith * published a statement made to him by Hope, the Amsterdam merchant, to the effect that the deposits of coin formed but a small part of its capital, as the bank had been in the practice, for many years, of giving credit for deposits of gold and silver bullion. For bullion the bank gave a receipt, which permitted its removal at any time within six months, on retransferring to the bank a sum of bank-money equal to the credit given for the bullion. For the care of gold bullion one-half per cent was charged, and for silver one-fourth per cent. If the bullion was not removed on the expiration of six months,

* Adam Smith's "Wealth of Nations."

it reverted to the bank at the price for which credit had been given on its deposit. The effect of this was to stimulate trade in bullion.

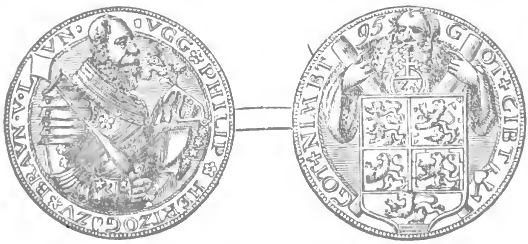
There was no cause for distrusting the statement that the entire deposits made to the bank were kept intact until 1672, when the French invasion as far as Utrecht occurred. A rush was made by depositors for coin to the amount of their credits, and, in accordance with the principle on which the bank was founded, the deposits were found to be complete, and the bank met every demand. This run, and its successful weathering by the bank, increased popular confidence in the institution and greatly raised its credit.

For one hundred and eighteen years after this the bank performed its functions with great efficiency, and solemn oaths were recorded with regularity that the treasures were intact. No public investigation of the bank was made in all this time, and the fact that the bank, contrary to the statements of its officers, had been advancing money to the unfortunate East India Company and to different provinces, was not publicly known until in December, 1790.

When Mr. Hope wrote Adam Smith (about 1775), he stated that there were about two thousand depositors, and that the bank possessed £3,000,000. In 1790 it was discovered that most of the deposits in the bank had disappeared fifty years before, and that there was then but a small sum left. The bank, to save itself, suddenly announced that in the future it would pay out silver only at a discount of ten per cent, and that no deposits would be paid of less than 2,500 florins. This practical confession of bankruptcy caused its receipts to fall from 105 to 50, and created a run. The order was rescinded, after a short

time, and credit was re-established with the people, who had no knowledge of the bank's real condition.

In 1794 the French entered Amsterdam, and an examination of the bank's affairs showed that eleven millions of florins had been advanced by the bank to the East India Company and to the provinces of Holland and West Friesland. The disclosure of this breach of trust, and the inability to recover the money, brought its credits down to sixteen per cent below current coin, and the bank assigned its claims against the company and the States to its depositors.



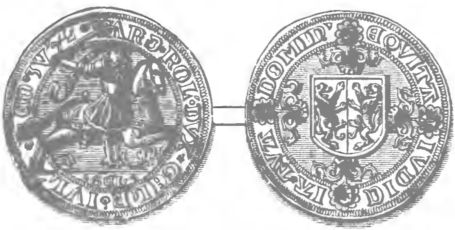
THALER OF PHILIP.—1598.

In 1619 the present Bank of Hamburg was established,—ten years after the Bank of Amsterdam, and to remedy the same evils in Hamburg as prevailed at Amsterdam,—to receive debased coins of uncertain value, and circulate in their stead bank-credits of a positive value. "In a city of the highest rank for commercial activity," says Palgrave,* "but greatly circumscribed in territory, continually receiving payments for merchandise in the coin of other countries, a common standard of value was a matter of primary necessity."

The bank received at first only the rix dollars of the German Empire, a silver coin having a fixed stand-

* Palgrave's "Notes on Banking," p. 115.

ard. The German Government soon coined a rix-dollar of light weight, and large numbers found their way into the bank before the fraud was discovered. The confusion was so great as to cause the closure of the bank for a short time.



THALER OF CHARLES OF EGMOND, 1530.

A basis of value was adopted, midway between the standard and debased coins, on which settlements were effected in 1770. This basis of value was termed a "mark banco," and from that time the "mark banco" was the unit of the money of account in the bank. Deposits were received by weight (whether of coin or bullion), and credits were made on the basis of "mark banco" for every 59⅓ parts of a metrical pound of silver of the fineness of $\frac{982}{1000}$ or over. For its services the bank charged one-eighth per cent to the seller of the silver. This system required the assaying of each quantity of silver received. The bank-money on this basis was quite as permanent as any, Colwell* saying of it in 1859 that it had commanded a premium above the currency of coins in general circulation of from twenty to twenty-five per cent for a long period.

Payments made were merely transfers from one person's account at the bank to that of another, and payers were obliged to appear personally, or by attorneys, with

* Colwell's "Ways and Means of Payment."

checks with printed signatures. Only merchants in Hamburg are allowed to keep accounts. In connection with the bank there is a loan office, in which advances equal to three-fourths their value, are made on pledges of gold, silver or jewels.

The credit of the bank has been uniformly well sustained. In 1770, as we have mentioned, the bank was affected by a depreciation of the German rix-dollar. Again it overextended its loans on pledges, and Napoleon's army once took its money, but it was repaid, and the bank resumed operations.

In 1853 it was found that the distinctive and altogether peculiar system of conducting the bank's business, based, as it was, on bar silver, lacked convenience for modern business methods, as no facilities were given for credits or discounts. On February 15, 1873, the German Government required all banking to be on a gold standard. The ancient Bank of Hamburg was obliged to abolish its bar-silver standard and its "mark banco," and use a monetary system, which is rix money in marks, 150 marks being equal to 100 marks banco. The bank is governed by five directors, two counsellors, two treasurers, and two of the principal city magistrates.

The first bank in Sweden was established by a Swede named Palmstruck, in 1656, and in 1668 it became the Bank of Sweden. To Sweden is given the credit * of introducing the use of the bank note in Europe, the first one having been issued in 1658. To Sweden is also given the credit for great advances in methods of banking similar to our present methods. The circulating medium of Sweden was copper, and large payments were made with great inconvenience. To remedy this, the bank received

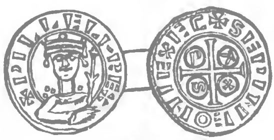
* Palgrave's "Notes on Banking," p. 87.

the copper money and issued bank-notes against it, which passed current all over the country. Later on the bank did a loaning business, and nearly suffered disaster in 1752.

Chapter III.

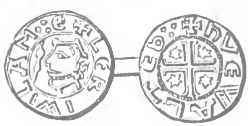
EARLY ENGLISH BANKING, AND THE BANK OF ENGLAND.

In England banking as now understood had no existence previous to the sixteenth century. The first public institution of the nature of banking was the Exchequer,



PENNY OF WILLIAM I., 1066-1087.—P. A. X. S.

founded by William I., which is still in existence, modified in form from a repository of cash to an office of accounts. In the reign of Henry III., 1216-1272, we are informed * that money-lending bankers, chiefly Jews, were settled at Oxford, where shameful practices were carried out in dis-



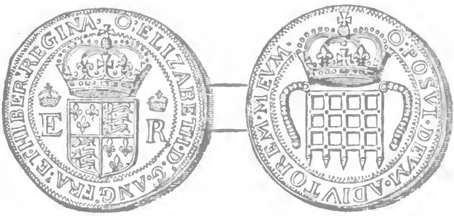
PENNY OF WILLIAM.

counting for students, forty-five per cent being a common discount.

On the expulsion of the Jews from England the business of private banking fell into the hands of the Lombards, sent to England by Pope Gregory IX. some fifty years previously. Their business was undoubtedly much the same as is at present carried on under the sign which

* Hilton Price's "Hand-book of London Bankers."

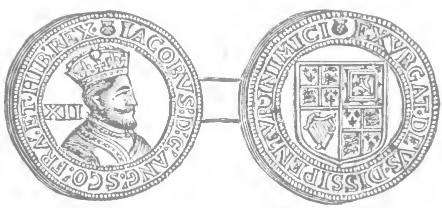
they carried from Lombardy, the three golden balls. They gave way to the goldsmiths, who afterwards became the bankers proper. Collins* states that our "lumber" and "lumber-room" are from their name and method of storing pledges in what were called "Lombard Rooms."



ELIZABETH'S EAST INDIA HALF-CROWN, 1558.

It is well known that Lombard Street, the banking center of London, took its name from the custom of Lombards and foreign merchants assembling there twice each day.

The custom of depositing money with goldsmiths, says a contemporaneous writer, grew out of the fact that



SHILLING OF JAMES I., 1603, FIRST COINAGE.

servants could not be trusted as cashiers. In the hands of goldsmiths, persons accustomed to handling valuables, it was safe. The business of receiving and making payments, of collecting rents, and of loaning money at interest, was a natural one, and soon followed the first practice of acting simply as treasurers of deposits. Goldsmiths

* Collins' "Law and Practice of Banking."

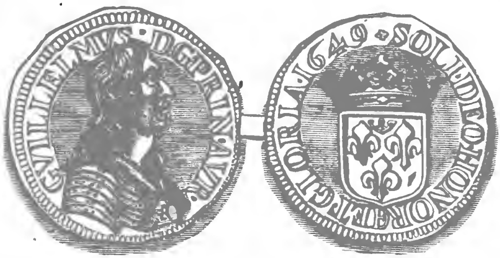
were well-respected members of the community, and record of their holding high offices in London are found in the reigns of Henry I., Richard I., and Edward I. In 1598 the houses in Goldsmith's Row were spoken of as being very beautiful. These were destroyed by the great fire of London, after which the goldsmiths settled in Lombard Street. Their surplus money was placed for safety in the Royal Mint in the Tower of London, from which Charles I. took £200,000, ruining many bankers and forcing them all to consider it a loan. It was repaid in a few months, but the mint never recovered its credit.

HALF-CROWN SIEGE PIECE OF CHARLES I.

During the civil war which marked the reign of Charles I., nearly all the surplus money* of the country found its way into the hands of goldsmiths, many of whom, encouraged by their success in loaning money, subsequently confined themselves exclusively to banking operations. The first "run" on a bank is recorded† as occuring in 1667, the "run" being on a banker named Backwell, and becoming general. The bankers adopted the expedient of requiring twenty days' notice, but suffered a shock to their credit, which was entirely destroyed in 1672.

*Lawson's "History of Banking," p. 106.
†Samuel Pepy's "Diary," Vol. II, p. 67.

The custom of depositing surplus money in the mint had given way after its robbery by Charles I., to that of its deposit in the Exchequer. Once a week they withdrew this money, with which to meet the demands of their customers. On Jan. 2, 1672, Charles II., needing



THALER OF WILLIAM, PRINCE OF ORANGE, 1649.

money very badly, on the advice of Sir Thomas Clifford, stopped the payment of the money in the Exchequer belonging to the bankers. The suspension of this weekly payment (there being £1,328,526 on deposit) involved the bankers and customers in common ruin.

In an attempt to satisfy this debt Charles gave letters patent to the various robbed bankers, agreeing to pay the principal with interest at 6 per cent. A list of these creditors of the King shows that Sir Robert Vyner, Edward Backwell, Gilbert Whitehall, Joseph Horneby, Jeremiah Snow, Bernard Turner, and George Snell were the principal London bankers of the time. The interest was paid a few years and then suspended. The creditors were obliged to prosecute their claim to the court of last resort, and a judgment against the Crown was secured. In 1699 an act was passed which provided that 3 per cent per annum should be paid on the principal sum, but that the indebtedness might be cancelled by the payment of a moiety

thereof, £664,263. This indebtedness is the first item of the present national debt of England, and interest is still paid at 3 per cent on the whole amount.

Of the old London bankers whose business is still carried on may be mentioned Edward Backwell, who was succeeded by Sir Josiah Child, founder of the present house of Child & Co. In 1692 the business of Middleton & Campbell, goldsmiths, came into the hands of James Coutts, and the business still carried on by Coutts' bank was thus established. We are told that the use of pass-books by banks originated with Mr. Coggs, a goldsmith, in the Strand. Previous to their use it was customary for depositors to call regularly and check up their accounts.

Although no public bank was established in England until 1699, there had been proposals, petitions, and discussions looking to the establishment of a public bank, so that the organization of the Bank of England was but the result of a growth of public sentiment, and the increasing need that the public service should effect a large loan. Two schemes devised by William Paterson for the establishment of a national bank failed. In the third scheme, in which he was aided by Michael Godfrey, he was successful, and an act incorporating the Bank of England received the royal assent from William III., on April 25, 1694. The act provided that £100,000 should be annually appropriated to persons making a voluntary loan of £1,200,000 for the purpose of carrying on the war with France. Commissioners were appointed to receive the subscriptions before Aug. 1, 1694. The stock was transferable, and the stockholders were called collectively the Governor and Company of the Bank of England. The Government retained the power to pay the sum at twelve months' notice after Aug. 1, 1705, upon which payment the

corporation should cease. The corporation was allowed to deal in bills of exchange, to buy and sell bullion, gold and silver, to lend money on security, and its bills of credit were made transferable. The corporation was forbidden to advance money to the Crown without permission of Parliament.

In ten days the whole sum of £1,200,000 was subscribed, and on July 10 and 11, officers of the company were elected. On Jan. 1, 1695, the bank began active operations at Grocers' Hall, Poultry. Notes of £20 were issued, and the bank commenced discounting mercantile bills of exchange. The bank was authorized to advance money on pledges, but no very considerable business of this kind seems to have been done. At first the bank stood in high credit with all but usurers, with whose business it seriously interfered.

Its first trouble came May 5, 1696. Coin had been clipped, filed, and counterfeited to an enormous extent, so much so that gold guineas of full weight passed current at thirty shillings. It had been the bank's practice to receive degraded coin at its nominal value, and when the great issue of new coin began the bank was obliged to pay its notes in fullweighted coin, so that for every seven ounces it had received in was obliged to pay twelve ounces. Of course, this caused a "run" on the bank. Its enemies, the private bankers, improved this opportunity to the full extent, and on the day mentioned they suddenly presented £30,000 in notes and demanded payment. The bank suspended cash payments, but it got through the trouble by good management and Government assistance, but as a precautionary measure its capital stock was increased by vote of Parliament on Feb. 3, 1697, new subscriptions to be paid in exchequer tallies

and bank-notes. The life of the bank was prolonged until twelve months after notice given after Aug. 1, 1710, and the bank was given a monopoly of the public banking business.

It should be noted that a bank was chartered by the Government just before this, its advance to the Government to be £2,564,000, but it had been impossible to secure subscriptions.

The Bank of England was authorized to issue bank-notes to the extent of its new capital, payable on demand and secured by the Government. The new subscriptions amounted to £1,001,171, 10s.

In 1707 the threat of invasion by Louis XIV. threw the country into a panic, and the enemies of the bank again attempted to cause its downfall, but it was reinforced by the Queen and several nobles and came through the trouble safely.

In 1709, the Government being greatly embarrassed, the bank was appealed to again, and an arrangement was made with it by which the interest which the Government was paying on its original stock of £1,200,000, was reduced from 8 to 6 per cent, with an annual allowance of £4,000 for managing the debt; the bank was to advance £400,000 more at 6 per cent interest; the capital stock of £2,201,171, 10s, was allowed to be doubled at a price of 115 for the new stock, upon which the bank agreed to circulate £2,500,000 in Exchequer-bills, and to receive an allowance of 6 per cent, one-half for interest and one-half for repayment of the principal, and that no more Exchequer-bills should be issued without the bank's consent. The life of the bank was further extended to August 1, 1732.

The subscriptions to this new stock were paid in four hours after the lists were opened.

Although the act of 1697 prevented the creation of another bank by Parliament, private joint-stock banks were formed, and any corporation and company could perform a banking business. To cut off these adventurers an act was passed that during the life of the Bank of England no more than six persons could be united to do a banking business. The result was the prevention of the formation of any other joint-stock bank than the Bank of England.

In 1713, upon loan to the Government of £100,000, secured by Exchequer-bills, the life of the bank was prolonged to twelve months' notice to be given after August 1, 1742, and the payment of £1,600,000. In 1716 the life

HALF-CROWN OF GEORGE I, 1720.

of the bank was prolonged indefinitely until three annuities of £88,751, £100,000, and £76,830, and other debts, upon which an annual interest of 5 per cent was paid, were extinguished. In 1717 the temporary victory and final collapse of the great South Sea company occurred, resulting in a "run" on the Bank of England which was artfully met and overcome. In 1722 the reserve fund known as the "rest" was created.

As 1742, the time when the life of the bank was to expire, drew nigh, the bank advanced £1,600,000 to the

Government, and its capital (enlarged in 1720 to £8,959,995 14s. 8d. by the purchase of £4,000,000 in South Sea company's annuities) was increased to £9,800,000; its life was also prolonged until twelve months' notice to be given after August 1, 1764. An attempt was made to close up the loose ends of the act of 1709 by an amendment intended to make the bank's monopoly more exclusive.

In 1745 the rebellion in Scotland was the cause of a "run" on the bank, and its notes fell to a discount of ten per cent, but one thousand six hundred merchants pledged themselves to support the credit of the bank-notes, and the "run" was stopped. In 1746 the bank's capital was advanced by further loans to the Government to £10,780,000. In 1759 notes for £15 and for £10 were first issued.

The charter of the bank expired in 1764, and it was renewed upon the absolute gift of £110,000 to the nation, and a loan of £1,000,000 on Exchequer-bills for two years at 3 per cent, the renewal of the charter being until twelve months' notice after August 1, 1786. In 1781 the charter was again renewed upon the advance of £2,000,000 at 3 per cent for three years, until twelve months after August 1, 1812, and the payment of the public debt. In 1782 the capital was increased to £11,642,400.

The London Clearing House was established in 1773, and occupied its building in Lombard street in 1775, but it was many years before the Bank of England joined it.

Up to this time the monopoly of the bank was nearly complete. Private bankers now began to give customers blank check-books, and the use of them in London became universal, entirely superseding the use of bank-

notes and circumventing the monopoly of the Bank of England.

During the period of unusual industrial activity which followed the termination of the war of 1713, England felt for the first time the great need of reliable banks of issue other than the Bank of England. Its monopoly was complete, and to provide a currency small shop-keepers and irresponsible persons turned bankers and inundated the country with a miserable currency. In 1775 an act prohibited bankers issuing notes of less than 20 shillings. In 1777 the minimum value was made £5.

In 1782 the extension of foreign commerce consequent on the conclusion of the war with the American colonies, led to overtrading. The Bank of England made unwise issues. Banks which had sprung up like mushrooms all over the country, in almost every hamlet, issued currency freely, and, strange as it may appear, all was received without hesitation. The actual money at the command of the bankers became ridiculously small for the magnitude of operations carried on. In the fall of 1792 the revulsion occurred, and bankruptcies were unusually frequent. The declaration of war with the Government of France under the Convention was the last blow to staggering credit, and the financial storm which swept over England carried down three hundred of the three hundred and fifty bankers doing business.

The Bank of England refused to support credit by meeting the demand for discounts. The Government came to the rescue, issued Exchequer-bills to the amount of £5,000,000, and freely loaned them to struggling institutions. Credit was immediately restored.

In 1797 a combination of untoward events had the effect of withdrawing large sums of specie from the bank.

The danger of invasion by the French became the cause of numerous "runs" on country banks, which rapidly spread to London, and on February 26, 1797, the Bank of England was directed to suspend cash payments until the opinion of Parliament could be taken. The bank gave notice that its affairs were most prosperous and its notes perfectly secure. Parliament continued the suspension of cash payments until six months after a definitive treaty of peace should have been concluded. The result of this action practically made the bank-notes legal tender, and

BANK OF ENGLAND DOLLAR, 1804.

for the first three years after the passage of the restriction act they were on a par with gold or possessed a small premium. From 1800 to 1810 the history of the bank-notes was one of gradual depreciation, until in 1810 the attention of Parliament was called to the subject and a committee of inquiry was appointed which reported that the depreciation was due to over-issue, and recommended that the Bank of England resume specie payments within two years. The recommendation was not adopted, and the over-issue continued until in 1814 the maximum depreciation was 25 per cent.

In 1813 the number of country banks had increased to 900, but in the three years following 240 of them stopped

payment, and, of course, their paper was withdrawn from circulation, causing the Bank of England's notes to rise nearly to par. The bank was directed to resume specie payments in 1823, but in fact it did resume on May 1, 1821. No legislation was had to prevent the unwise issue of notes by country banks, however, and in 1823 such issues were greatly enlarged, and in 1825 the amount in circulation was estimated to have been 60 per cent greater than in 1823. Speculation became hazardous in the extreme, and when exchange began to fall in 1824 trouble began. London currency was contracted in September,

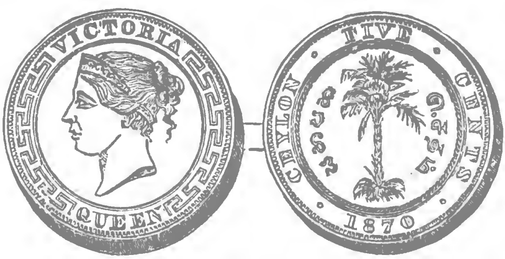
GOLD FIVE-POUND PIECE OF VICTORIA.

1825, and country banks began to fail the moment they could not secure accommodations in London. In less than six weeks more than seventy banks were carried down, and the demand for gold at the Bank of England was so great as to have drained it of about seven millions of bullion before the outflow could be stopped.

The crisis in London lasted one week, when the tide receded, and the safety of the bank was assured. The exchange turned to the favor of England, and gold began to flow toward the country. The Bank of England then issued notes with prodigal abundance, £5,000,000 being issued in three days. The next week uneasiness in the

country was again apparent, but it was stayed by the bank's issue of £500,000 in £1-notes, and by the first of 1826 credit was entirely restored.

In 1826 the issue of less than £5-notes was prohibited in England. In 1833 the charter of the bank was extended for ten years, and joint-stock banks of issue defined and permitted. In 1839 the issue of the Bank of England again became redundant, and but for assistance from the Bank of France, the bank would have stopped payment.



COPPER FIVE CENTS OF CEYLON.

In 1844 and 1845 Sir Robert Peel introduced measures into Parliament, the passage of which greatly improved England's banking system. The power to issue notes payable on demand was limited by making the amount of such notes in circulation vary with the amount of bullion possessed by the issuer. The issuing and banking departments of the Bank of England were entirely separated, and over the first department the Bank was given no control. The issue of the Bank was made £14,000,000 on securities, and it was allowed to issue two-thirds of the amount of notes which any country bank was authorized, but failed, to issue. Under this provision the issue had increased to £15,000,000 in 1875. Above this

sum its notes can only be issued upon the receipt of an equal amount of coin or bullion. By this legislation its notes are made equal with gold.

The act of 1844 also provided that no new bank of issue should be established in the United Kingdom, and that the maximum issue of notes by the existing country English banks should be limited to the average amount which they had in circulation during the twelve weeks preceding April 27, 1844. No other bank than the Bank of England was allowed to issue notes in or within sixty-

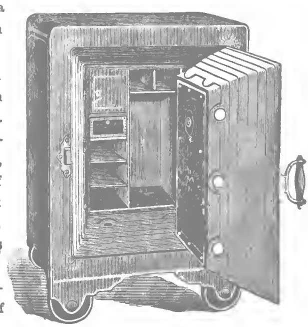
THREE-SHILLING, OR GUILDER OF DEMERARA.

five miles of London. The charter of the bank was extended until twelve months' notice after August 1, 1855.

On three occasions, in 1847, 1857 and in 1866, it has been found necessary to authorize the Bank to issue notes beyond the limits of the act of 1844, in order to restore credit to the mercantile community.

Such, in brief, is the history of the Bank of England. With it is closely connected the history of banking in England. Branches of the Bank have been established at Manchester, Liverpool, Birmingham, Bristol, Leeds, Plymouth, Newcastle-on-Tyne, Hull, and Portsmouth. The capital stock of the Bank is £14,553,000. The

"Rest" on October 26, 1887, was £3,100,053. The dividends for the year ending October 5, 1887, were at the rate of £9¾ per cent. The price of bank stock on October 26, 1887, was £304. On that day there were £24,210,255 in circulation, and of its unemployed notes there were £10,824,670. Of gold and silver coin and bullion there were £20,092,263.



Chapter IV.

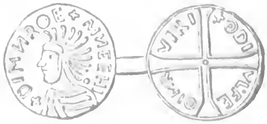
MODERN EUROPEAN BANKING.

The history of banks in England other than the Bank of England can be sketched in a few words. The end of the war between France and England in 1815, was soon reflected in the brightening of commerce, but it was a long time before the people paid attention to banking laws or facilities. The Bank of England, together with private bankers, had been able to meet all demands. The crisis of 1825 showed the weakness of private banks, and the necessity of public banks. The legislation restricting the formation of joint-stock banks in order to protect the monopoly of the Bank of England, has already been mentioned. In 1826 six joint-stock banks were registered, and seven in 1828-9 and seven more in 1829-30. In 1833 legislation was had permitting joint-stock banks of deposit in London. In 1834 the prospectus of the London and Westminster Bank was promulgated by James William Gilbart. In 1836 the London Joint-Stock Bank was organized, and in 1839 the Union Bank of London was established. The act of 1833 did not permit the banks to sue or be sued in the name of their officers, but a later Act of Parliament corrected that defect. At present there are 173 joint-stock banks in the United Kingdom, the banker's license being £30 annually.

The restrictive legislation of 1708 against joint-stock banks in England did not extend to Scotland. The Bank of Scotland was organized in 1695, the year following the

establishment of the Bank of England. Its original capital was £100,000, and it had a monopoly for twenty-five years. In 1774 its capital was increased to £200,000, and at several other times, until it now stands at £1,500,000, of which £1,000,000 is paid-up. It is the only Scotch bank established by Parliament. In 1696 it began to establish branches, and began to issue notes as early as 1704. It was a bank of deposit at an early period—certainly before 1729—and interest on deposits was allowed. The Bank has branches in all important Scotch towns. Of other prominent joint-stock banks in Scotland may be mentioned: The Royal Bank of Scotland, established in 1727, and now having a capital of £2,000,000, and numerous branches; the British Linen Company Bank, established in 1746, with a capital of £1,000,000; The Commercial Bank of Scotland, limited; the National Bank of Scotland, limited; the Union Bank of Scotland, limited; and the Caledonian Banking Company, limited. In Scotland the system of giving cash-credits in limited sums upon personal and other security, prevails. Failures in Scotch banks have been infrequent, those of the Western Bank and the City of Glasgow Bank, being notable instances.

The Bank of Ireland dates from 1783. Previous to this a primitive system of private banking prevailed, gold-



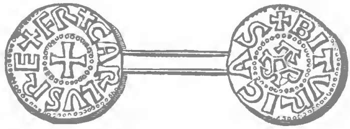
EARLY IRISH COIN OF DONALD, KING OF MONAGHAN, 850 A. D.

smiths, tradesmen, and general dealers being the bankers. The earliest reference to the subject of Irish banking is

an act of the Irish Parliament in 1709. The business at that time was entirely uncontrolled, and any person could issue bank notes, silver or copper coin. Upon the establishment of the Bank of Ireland, banking privileges were much curtailed. In 1797 the suspension of cash payment by the Bank of England was extended to Ireland, and the Bank of Ireland greatly increased its issue of bank-notes. Private banks sprung up all over the country, and they also swelled the currency until it became greatly depreciated. In 1804 there were fifty-seven banks in Ireland. In 1819 but nineteen remained, and in 1827 there were but ten banks in all Ireland. In 1821 a law was passed permitting joint-stock banks to be organized, but none were founded until additional legislation in 1824 made the restrictions less objectionable. Then the Northern Bank of Belfast was organized. In 1825 the Provincial Bank of Ireland was started with a capital of £2,000,000. In 1834 the Agricultural and Commercial Bank of Ireland was organized, but it went under in the crisis of 1836. In 1864 the Munster Bank at Cork was established. It has over forty branches, and pays 12 per cent dividends.

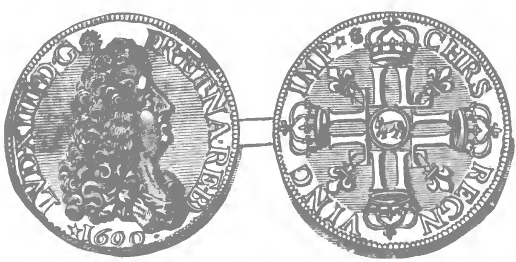
On May 2 and 20, 1716 the French Government granted a concession to John Law, a Scotchman, for the establishment of a bank, of which he was to be director and the Regent its protector. In June, 1716, it began business with a capital of 6,000,000 francs, and was authorized to issue notes payable at sight and to bearer, to discount paper, to receive deposits, to make collections and payments, and do a general banking business. The success of the bank was assured until Law and his *Compagnie d' Occident* ruined it in one year. It was fifty years later before the country was ready for another credit

establishment. In 1776 M. Besnard was authorized to establish in Paris a discount bank, and, although of value to the business world, the Convention suppressed it in



PENNY OF CHARLEMAGNE, ISSUED AT BITURIGAS, OR BOURGES.

1793. So soon as the public quiet was restored, organizations were founded which in 1800 resulted in the Bank of France, with a capital of 45,000,000 francs, which was increased to 90,000,000 francs in 1806. It is a bank of deposit, discount, and circulation, and has the sole power to issue notes. Its government consists of a governor and two deputies, and a council-general of twenty members. Bills are discounted within three months of maturity, guaranteed by two, or generally three, approved



CROWNS OF LOUIS XIV., 1643-1715 A. D., KING OF FRANCE AND NAVARRE, KING AND DUKE OF BEARN.

(The cow in the centre is the standard of Bearn.)

signatures. The annual dividends are limited to 5 per cent. All other profits are invested in consolidated stock to be returned to the stockholders upon the expiration of

the charter, in 1897. In 1848 the joint stock banks which had been started in several large cities were consolidated with the Bank of France as branches, and their issues of

THALER OR FIVE SOL PIECE OF ANNA MARIA LOUISA (MADEMOISELLE), PRINCESS OF DOMBES, 1673.

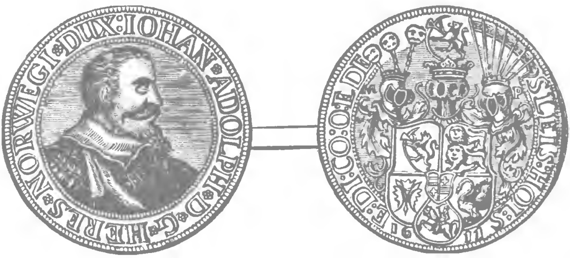
notes suspended. Since then branches have been established in each department. In 1848 the bank suspended cash payments, but resumed them in 1851. The Government is largely interested in the Bank of France and they are mutually helpful. In 1870 specie payment was

FIVE-FRANC PIECE OF NAPOLEON III.

stopped, but through all the troublesome times which followed, the management of the bank has been prudent, and its credit is restored.

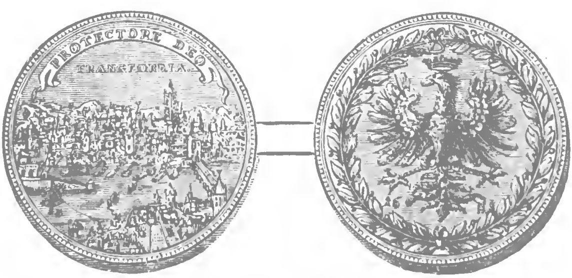
A few other joint-stock banks exist in France, but do not possess the power to issue notes.

The Royal Bank of Prussia was established June 17, 1765, as an exchange and loan bank, with a capital of 400,000 thalers.



THALER OF DUKE JOHN ADOLPHUS, HEIR OF NORWAY, DUKE OF SCHLESWIG HOLSTEIN, 1611.

In several of the German States banks were founded under laws peculiar to each one, and with local circulations, but the union of these states into the Empire called for



FRANKFORT THALER OF 1628.

a national currency. On January 30, 1875, an act was passed which met this demand. The Royal Bank became an Imperial Bank, which was established with an "uncovered" or unsecured issue of 250,000,000 of marks, with

a right to increase this issue if one-third the increase is represented by cash in hand and two-thirds by bills not having more than three months to run. Thirty-two other

THALER OF MARIA THERESA, A. D. 1742.

banks were permitted to have an "uncovered" issue to the extent of 135,000,000 of marks, and to exceed their authorized issues, subject to the payment of 5 per cent interest on the excess above the authorized limit, plus the cash in

THALER OF FREDERICK WILLIAM III., OF PRUSSIA.

hand. No note is issued less than 100 marks, and no new right of issue can be conceded except by a law of the Empire. The State itself has power to issue 120,000,000 of marks in state-notes of small denominations. There are but nineteen note-issuing banks in the Empire. The Empire shares in the profits and superintends the conduct of the

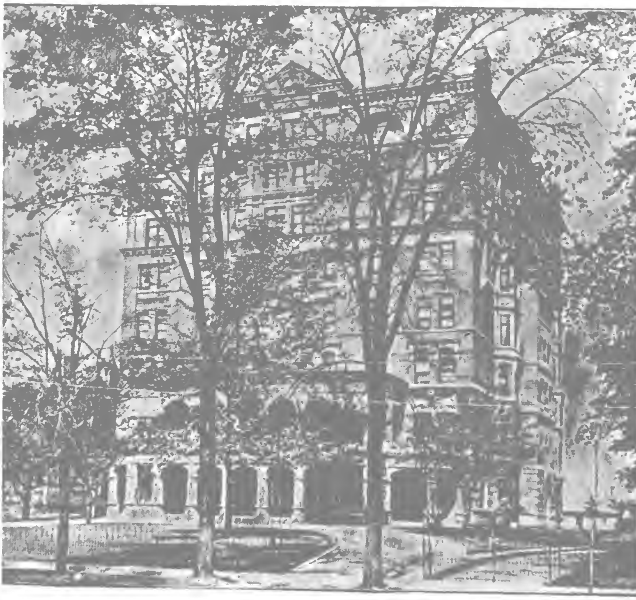
Imperial Bank (Reichs Bank), and it is entitled to erect branch offices in any part of the Empire. Its capital is about $30,000,000.

GOLD TWENTY-MARK PIECE OF PRUSSIA, 1872.

The Bank of the Netherlands, at Amsterdam, was first chartered in 1814, with the Bank of England as a model, with a capital of 5,000,000 florins, which was increased to 10,000,000 in 1819, and to 15,000,000 in 1838. In 1863 it was re-chartered. It is a bank of deposit and issue.

In 1814 the National Bank of Copenhagen took the place, and all the debts, claims, rights and privileges of the Rigs Bank, in Denmark, upon the cession of Norway to Sweden.* The bank was obliged to maintain the notes of the Rigs Bank at their par value, and to do this it was required to collect and preserve silver coins, bars and banco money sufficient to redeem the notes when presented. The proportion of cash to outstanding notes has usually been from one-half to two-thirds. The bank also receives deposits and makes loans and discounts. It was required to hold silver for one-half its notes in circulation, one-half of which silver must be of the coinage of Denmark, the other half to be in silver bars or Hamburg banco. In 1848 the bank was permitted to substitute sterling money for one-quarter of the banco. In 1854 the bank increased its paper money from £2,222,000 to £2,660,000, the increase being secured by an equal amount of sterling

* Palgrave's "Notes on Banking," p. 112.



money (one-quarter), silver bars, (one-half), and banco, (one-quarter). In 1859 it was allowed to increase its paper issue by the purchase of silver bars. From 1853 3 per cent interest was paid on money loaned to the bank, and from May 1, 1860, the State surplus has been left with the bank, which pays interest upon it. There are several private joint-stock banks in Copenhagen with no peculiar features.

In 1830 the "Enskilda" banks were first organized in Sweden. They are private banks with large numbers of partners, and issue notes payable in silver or in notes of the Riks Bank.

The notes issued are based on sound securities, the Government's banking law being a model of clearness and cautiousness. In 1884 the Post Office Savings Banks were established in Sweden, to receive money under guarantee of State, allow interest upon it, and by accumulating interest and capital, hold it at the disposal of depositors. The rate of interest is fixed by the King, and is added to the capital at the end of each year. The smallest amount received on deposit is one krona. All funds are invested in the Bank of Sweden.

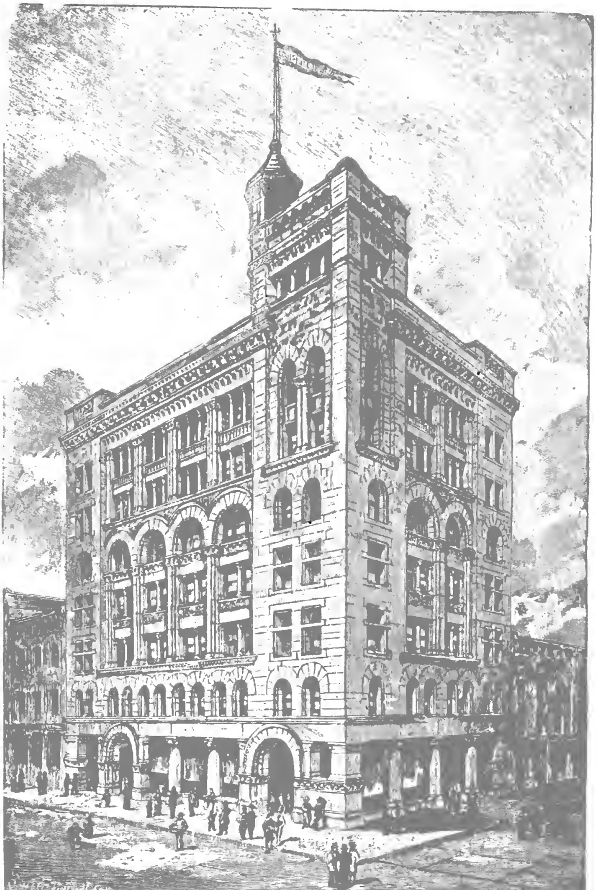
The National Bank of Austria was established in Vienna, in 1860, with a view to restoring the credit of the Government. It has the exclusive privilege of issue, and in return loaned the State 80,000,000 florins without interest. It established numerous branches in different cities in the Empire. On December 24, 1867, the Government established a forced currency, and consolidated its debts to the National Bank into one loan of $40,000,000, and re-organized that institution into the Austro-Hungarian Bank, extending its charter to January 1,

1888, and giving it the exclusive right to issue notes. These notes are payable to bearer on demand, in coin of the realm at Vienna and Buda-Pesth, where are located the head offices of the bank. Should any of the notes be refused payment within twenty-four hours after presentation, further issues are prohibited and the bank's charter is forfeited. These notes are not issued for sums of less than $5, and issues over $100,000,000 must be secured by gold or silver coin or bullion. Notes issued on deposit accounts in excess of the amount of the reserve of the bank must be covered by banking securities—discounted bills and notes, loans on precious metals, convertible notes, redeemable obligations, or coupons of the Empire, or foreign bills of exchange. The bank's affairs are administered by a governor nominated by the Emperor, two deputy governors, and a board of twelve directors.

The Bank of Norway was established in 1816, its capital being a forced loan raised by levying a tax on all landed property. Each tax-payer became a shareholder in the bank to the extent of his payment, and their shares soon came to a premium. All its securities, like bills or notes, must be available at short notice. It loans its own notes on land, the loan being but two-thirds of the value of the security. The interest paid semi-annually by borrowers is 4 per cent per annum, and 5 per cent of the principal must be paid each year. The security is sold in case of non-payment. The bank has the exclusive privilege of issuing notes, which are legal tender and payable in gold on demand.

The oldest of the Belgian banks is the *Societe Generale*, founded August 28, 1822, with a capital of 50,000,000 florins. It did a discount business and managed the

See Opposite Page.



OFFICE BUILDING OF

The Louisville Trust Company,

South-West Cor. Fifth And Market Streets,
LOUISVILLE, KY.

Government's finances until Belgium and Holland separated, when that branch of business was resigned to the Bank of Belgium, of Brussels, which was chartered in 1835, with a capital of 20,000,000 francs. In 1838 the Bank of Belgium suspended payment, and again in 1839, the Government coming to its assistance each time. In 1841 its capital was increased to 30,000,000 francs. In 1850 the management of the Government's finances was relinquished to the National Bank of Belgium, of Brussels, organized May 5, 1850—a joint-stock bank—with a capital of 25,000,000 francs, of which the *Societe Generale* took 10,000,000 and the Bank of Belgium 15,000,000,

THALER OF THE MONASTERY OF ST. GALL, 1622.

both ceasing to issue notes and agreeing to abandon their discount business. Its charter was renewed in 1872 and its capital stock has been increased to 50,000,000 francs. It pays 5 per cent dividends, and one-third of its profits above 6 per cent goes to form a sinking fund. It has a governor, six directors, and a council of censors, and the funds of the State are kept on deposit in its vaults.

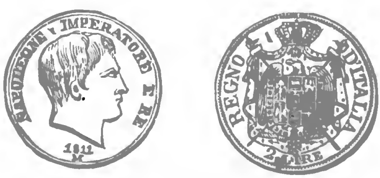
The Bank of Belgium now has a capital of 50,000,000 francs, and the Bank of Flanders, in Ghent, has a capital of 10,000,000 francs.

The earliest Swiss bank of issue is that of St. Gall, which dates from 1836. At the end of 1869 there were nineteen issuing banks in the Swiss Confederation. There are now thirty-three legalized banks of issue. In

CROWN OF ZURICH (CALLED TIGURUM BY THE ROMANS).

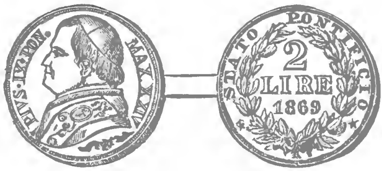
1885 their average circulation of notes was $23,822,183. There are 325 savings banks, the deposits in 1882 being $47,547,428.85. There are also 162 other banks of deposit, mostly of a private nature.

Although the oldest existing Italian bank dates from 1622 — the Monte de Paschi, in Siena — the National Bank of Italy has a history dating only from 1850, it having been organized by consolidating the Bank of Genoa, founded in 1844, and the Bank of Turin, founded in 1847. At its organization a sum was to be paid for Government superintendence, and it agreed to advance to the



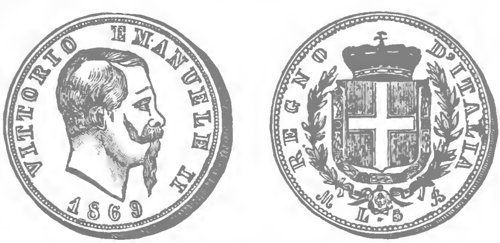
TWO LIRE OF THE KINGDOM OF ITALY.

State a sum not over 18,000,000 lire, secured by a deposit of public stocks or treasury bonds bearing 3 per cent interest, or less if the market rate was lower than



TWO LIRE, PIUS IX.

that. Three bank seats and four branch banks were established, and the capital, originally 40,000,000 lire, is now 200,000,000 lire. It has numerous branches, and its circulation is national. In April, 1874, the Government restricted the right of issuing bank-notes to six banks: The National Bank of Italy; the National Tuscan Bank, organized in 1857; the Roman Bank, 1850; the Tuscan Bank of Credit, 1860; the Bank of Naples, 1816, and the Bank of Sicily, 1843. This law authorized the Bank of Naples to increase its capital, by 1885, to 48,750,000



SILVER FIVE LIRE OF VICTOR EMMANUEL II.

lire, and the Bank of Sicily to 12,000,000. The National Tuscan Bank had a capital of 30,000,000 lire; the Roman Bank, 15,000,000, and the Tuscan Bank of Credit, 10,000,000. By this law these six banks were organized

into a union, which, if required, should furnish the Government 1,000,000,000 lire in bank-notes, but by a law, passed April 7, 1881, this union was terminated.

GOLD PIECE OF DEMETRIUS, 1580 A. D.

There are also numbers of "People's Banks," credit societies, "Agrarian Banks," friendly societies, etc., the People's Banks increasing very rapidly.

The Imperial Bank of Russia was founded in 1860, to regulate the issues of currency and aid commerce. Its capital is subscribed by the Government, and it is managed

DOLLAR OF NEW GRENADA.

by a committee of the treasury. Its charter was to run for twenty-eight years. When founded, its capital was

$11,875,000, and one of its principal aims was to restore specie payments. In 1864 the circulation had a nominal value of $630,000,000, based on a specie reserve of but

DOLLAR OF BOLIVIA.

$43,330,000. In 1877-78 the currency was greatly expanded because of the Turkish war. The bank enjoys the sole privilege of issuing notes, and it has numerous

ARGENTINE CONFEDERACY.

branches. There are more than two hundred communal Russian banks.

Greece has two modern banks, the National of Athens, with a capital of $540,000, and the Ionian Bank, at Corfu.

Savings banks were known in Europe as early as 1765, at which date there was one at Brunswick. In 1778

one was established at Hamburg which still exists. In 1786 one was founded at Oldenburg, in 1790 one at Loire, in 1792 one at Basel, in 1794 one at Geneva, and in 1796 one at Kiel, in Holstein. In England they had a rapid growth. In 1799 Rev. Joseph Smith put into execution

DOLLAR OF CUNDINAMARCA.

Jeremy Bentham's suggestion by the establishment at Wendover of a "frugality bank." In 1801 Mrs. Priscilla Wakefield established a savings bank in connection with a friendly society, and others followed rapidly. In 1817 so numerous had they become, Parliament passed a law for

MEXICAN GLOBE DOLLAR OF CHARLES III.

their control. Penny banks have lately been established in various cities of Great Britain. Savings Banks for the army were established in 1842, and for the navy in 1854.

Several railway companies maintain savings banks for their employes. In Norway there were twenty-two savings banks in 1840, and 311 in 1880, of which 249 were rural. In Sweden the first savings bank was founded in

DOLLAR OF THE EMPEROR MAXIMILIAN.

1813. In 1840 there were fifty-eight, and in 1880 the number had increased to 340, of which 252 were rural.

Chapter V.

EARLY AMERICAN BANKING.

The history of banking in the American colonies before the revolution is very obscure, and nearly every early mention of "banks" is apt to be misleading. The word "bank," as used by the colonists, meant simply a batch of paper money, issued by one of the provinces, or in rare instances, by a company or association of individuals more or less directly authorized by law.* The modern commercial bank of deposit and discount, as we know it, did not exist, because there was no business to support it. There was no equivalent for the "moneyed-class" of to-day. The capitalist had not yet come. With few exceptions, men in easy circumstances were merchants or the large land owners then everywhere called "planters." Men of property derived their wealth from commerce or agriculture, and re-invested their gains in land or trade. The population was widely scattered, and the number of those within reach of any one business center, having cash to keep, was too few to make its custody and handling a profitable business for any one. Each merchant or planter kept his own cash in his own strong box at his own house. When a note or draft was presented he counted out the "broad Joes," or hard dollars, to pay it, if it were during one of the rare intervals at which specie payments were in vogue. Oftener the payment was made in depreciated paper at the fluctuating rate of discount, at which it just then happened to be current. This discount varied,

* Gouge II., 9; Bancroft, III., 388; Hildreth, II., 285.

with time and place, from a minimum of 8 to 10 per cent to a common rate of 2 to 10 for one. In extreme cases this depreciation reached 1,000 of the debased paper for one of specie.*

This issue of a depreciated paper as an expedient for the relief of every real or supposed pecuniary distress, was a prominent feature of colonial politics, especially in New England and South Carolina. The exigencies of Indian wars and numerous futile expeditions for the conquest of Canada led to repeated issues of bills of credit by the Governments of the several provinces. The prompt action necessary to be taken in getting up these expeditions, made it impracticable to wait for the levy and collection of a tax, and the scarcity of capital made it difficult or impossible to borrow money through channels commonly resorted to in older and wealthier States. Bills of credit, made legal tender, operated as a forced loan without exciting the opposition and clamor which would have followed had the authorities adopted that plan without disguise, or had they openly "pressed" or "requisitioned" the needed stores and material in kind. Wasteful and extravagant, if not actually ruinous, as such measures always prove in the long run, the exigencies of the occasion seemed not only to justify, but imperatively to demand their adoption in these cases. We of this generation have seen measures, which we now perceive to be of at least equal folly, promoted and sanctioned by the most trusted statesmen of the day as a "military necessity." Even depreciation enhanced, in some respects, the popularity of these forced issues, as it afforded debtors, always a large class, especially in a new country, the "cheap money," which enables them to discharge their

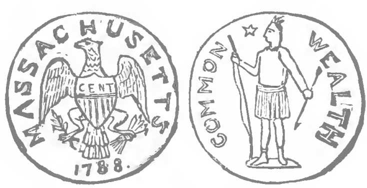
* Gouge, II., 9; Hildreth, II., 285, 341, 404, 467, III., 353; Bancroft's History of the Constitution, I. 228-237.

debts at a discount; and the rise in prices, in proportion to the depreciation of the currency, gave a fallacious appearance of general prosperity. The "scarcity of money," or appreciation of currency, which followed a redemption and withdrawal of a portion of the outstanding paper, was represented as a public calamity. This apprehension of countless imaginary ills attendant upon any "contraction of the circulation," led to loan schemes devised and sustained by that restless, unsettled class, numerous in every age in a growing community, which arrogates to itself a special claim to be called and esteemed "active business men," whose members, under the guise of public spirit, strive to make the capital of the rich and the labor of the poor alike subservient to their own selfish schemes for personal profit.*

The earliest issue of paper money in North America was made by the French Governor-General of Canada, in 1685. At that time the Indian tribes of Central New York—the redoubtable Iroquois, or Five Nations—were the most dangerous foes of New France. The English colonies were not yet strong enough to attack their French neighbors. The Iroquois, however, had made repeated incursions into Canada, capturing and destroying Montreal, and threatening the French settlements with complete extinction. In 1685 the Marquis de Denonville, Governor-General of Canada, set on foot an expedition against the Senecas, the most westerly of the Five Nations, and to furnish funds for this enterprise issued "card money," which was made redeemable in bills upon France.† In 1690 Massachusetts issued the first paper money emitted within the present limits of the United States, of which we have

* Hildreth, II., 293-4.
† Hildreth, II., 120.

authentic record. In December of that year the expedition which Sir William Phipps had led against Quebec — the first serious attempt by the English colonies at the conquest of Canada — returned to Boston, having made complete failure. There was no money in the treasury to pay the troops, as the authorities had relied upon the spoil which a successful expedition was expected to bring home, to meet all such charges. To provide for this emergency the General Court resolved: that, "Considering the present poverty of the country, and, through the scarcity of money, the want of an adequate measure of

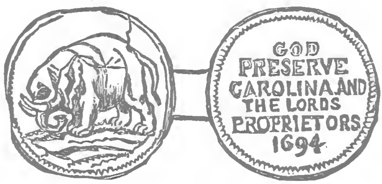


MASSACHUSETTS CENT.

commerce," bills of credit in notes of 5 shillings to £5 should be issued "to be in value equal to money, and accepted in all public payments." The first issue was fixed at £7,000, subsequently increased to £40,000, equal, as Massachusetts money was then rated, to $133,333. Before this limit was reached, however, the bills sank to a discount of one-half. To raise their credit they were made full legal tender. In 1691 £10,000 of this paper then remaining in the treasury was ordered to be burned. In 1692 it was ordered that, in lieu of interest, the bills should be received by the treasury at a premium of 5 per cent over coin. These measures, coupled with a promise to redeem the entire issue in twelve months, sufficed to

bring this paper to par and to maintain it in circulation at that point for twenty years.*

South Carolina was the first to follow the example of Massachusetts. In 1702, being then the most southerly



CAROLINA CENT.

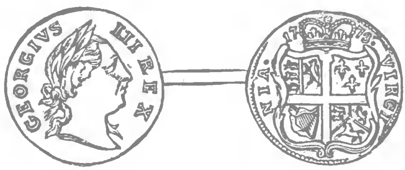
of the English colonies, this province attempted to wrest Florida from the Spaniards. A disastrous siege of St. Augustine ended the invasion and left the province burdened with debt. Pleading the example "of great and rich countries," and confident that "funds of credit have fully answered the ends of money, and given the people a

NEW JERSEY CENT.

quick circulation of their trade and cash," the colony issued bills of credit to the amount of £6,000. This was to be paid off within three years by a tax on liquors and peltries.† In 1707 Rhode Island and New Hampshire issued their first bills of credit to provide means for taking part with

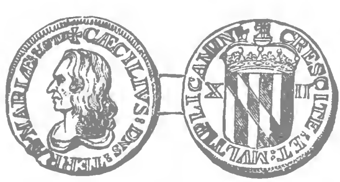
* Hildreth, II., 136; Bancroft, III., 186; Hutchinson (Ed. 1795), I., 356.
† Bancroft, III., 209; Hildreth, II., 229.

Massachusetts in the attempted conquest of Acadia, or Nova Scotia from the French.* New York, Connecticut and New Jersey made issues of bills of credit for the first time in 1709 to equip their quotas of troops to assist in another futile attempt at the conquest of Canada,† and in



VIRGINIA HALFPENNY, 1773.

1713 North Carolina "paid," with bills of credit, the expenses of the war against the Tuscaroras, which ended in the expulsion of that tribe from its old home, to wander northward until it settled in western New York as the sixth nation of the Iroquois Confederacy.‡ Virginia issued no paper until 1755, when bills were emitted to equip the battalion of provincial militia, commanded by Washington, which accompanied Braddock's disastrous expedition



BALTIMORE SHILLING, 1659.

against the French on the Ohio.§ As will be related hereafter, Pennsylvania and Maryland first authorized

* Hildreth, II., 259.
†Ibid, 260.
‡ Ibid, 270.
§ Ibid II., 452.

banks — issued paper money, that is — to be loaned to their people as currency. There is no record of any considerable or authorized issue of paper in any form in Delaware or Georgia until a later date. Thus it will be seen that of the eleven colonies which resorted to the issue of paper money, before the revolution, in the case of nine of them it first appeared as an adjunct of military enterprise and of military defeat and disaster.

South Carolina had issued bills of credit in 1702 to meet urgent demands upon the treasury, in a desperate emergency. In 1712 this colony invented a modification of the original plan, which was quickly imitated by most of the other provinces. "To defray the expense of an expedition against the Tuscaroras and to advance and accommodate domestic trade," the Legislature established a "public bank," and issued £48,000 in bills of credit, ealled bank-bills, to be loaned out at interest, to individuals upon real estate and personal security. The loans ran for twelve years, to be repaid one-twelfth each year. In this case the military necessity was used only as a decent pretext, and when the next bank was authorized the cloak was laid aside. Although made a legal tender, these bank-bills were early discredited, and before the end of the year were current only at a discount of one-third of their nominal value. In 1716 a second "bank" of £30,000 was ordered to be loaned out on the same terms as the first. This was disallowed by the Lords' Proprietaries of the colony in England, in part because among the taxes provided for its redemption, a duty of £10 per head was imposed on all negroes imported. This was the first and principal cause of discontent with the Proprietary government which led to tumults and, finally, in 1719, to an open insurrection which ended in the complete subversion of

the Proprietary authorities. A revolutionary convention, chosen by the people, assumed the management of affairs, and appealed to the British home Government for relief. The English ministry instituted proceedings to revoke the Proprietary charter, proclaimed South Carolina a crown colony, and, in 1721, appointed a royal Governor. In 1722 a bill was introduced in the Assembly for adding £120,000 to the paper money of the colony. Twenty-eight of the principal merchants of Charleston protested against it, and in their remonstrance alleged as the chief cause of the then excessive depreciation of paper money, "that every legislative engagement for recalling the various emissions of bills had been broken through by every Assembly." Provoked by this plain statement of unpalatable truth, the assembly pronounced the merchants' petition "a false and scandalous libel," and sent the petitioners to prison for a breach of privilege. The Governor not daring to interfere, they were released only on payment of a large sum by way of fees. The bill for the new bank, though passed by the Assembly, was disallowed by the English Government, and the Governor was "strictly enjoined to consent to no new law for creating a further paper currency, neither to any act for diverting the sinking fund already established." At least a part of these disallowed "banks" seems to have been issued, however, in spite of the prohibition, for, in 1725, the Assembly resolved that, "Whereas, the circulating bank money is already reduced to £87,000, and is likely soon to be entirely paid off," there was grave occasion to apprehend a scarcity of money. To escape this imminent disaster the Assembly tacked a rider on the annual revenue and appropriation bill, stopping the redemption and withdrawal of the bank paper. The Governor and Council proposed

to strike out this provision; but the Assembly denied their right to amend money bills, and left them to choose between a breach of their instructions and a failure of supplies. Next year, 1726, this policy was followed up by a bill for the issue of another bank, which the Governor's Council again refused to pass. The planters then entered into a combination to pay no taxes, alleging their inability to do so unless aided by the issue of more bank bills. When, in 1727, a conspicuous member of this association was arrested and imprisoned, the Chief Justice denied him a writ of habeas corpus on the ground that his offense amounted to high treason, and was not bailable. After an acrimonious controversy in the Courts and in the Assembly, two hundred and fifty horsemen entered Charleston from the neighboring country and compelled his liberation. The Assembly impeached the Chief Justice, became involved in a violent quarrel with the Governor and his council, adjourned themselves of their own motion, and when again summoned, refused to attend. This disorder lasted until 1730, when a new Royal Governor came out, and a new council was appointed, from which were omitted all those who had been most strenuous for obeying the royal instructions forbidding further emissions of bills. The paper money party thus strengthened, the Assembly suspended the redemption of all outstanding bills, and voted another issue of £104,000, both of which measures seem to have obtained the Governor's assent. In 1736 still another bank of £100,000 was authorized, to be loaned out at 8 per cent like the previous issues. Before this time the bank-bills had steadily depreciated until they reached a discount of seven of paper for one of specie, at which the currency of South Carolina remained, almost without variation, until the eve of the revolution.* The

* Hildreth, II., 285-92, 337-8; Bancroft, III., 329; Gouge, II., 7-8; Holmes' Annals, II., 58, 82.

case of South Carolina is perhaps the only instance in which the never-ending controversy between the advocates of expansion and those who favor a contraction of the currency led to a complete and radical change in the form of government.

As South Carolina was the first to follow the example of Massachusetts in issuing bills of credit to meet demands upon the public treasury, so Massachusetts was the first to adopt the plan devised in South Carolina of manufacturing paper money to be loaned out for the promotion of trade. As we have seen, the earliest issue of bills of credit was made by Massachusetts in 1690 to meet the cost of Phipps' futile attempt on Quebec. The next resort to the same device in this province was in 1711, when bills, amounting to £40,000, were issued and paid out directly by the Government to equip the New England troops attached to the even more disastrous expedition led by the English Admiral, Sir Hovenden Walker, against the same fortress. In 1714 a very general agreement had grown up in Massachusetts in favor of the loan system of issuing paper, but differences arose as to the precise method of carrying it out. The more adventurous and speculative element proposed a private bank, to be incorporated by the General Court, to issue bills on its own credit and responsibility. Others preferred the indorsement of the colony and proposed to issue colony bills, as heretofore, to be loaned on landed security for a term of years, the interest and one-twentieth of the principal to be paid annually. If this scheme was adhered to, the whole debt would be paid off and the entire issue of paper redeemed and retired in twenty years. In the meantime the interest would reduce, by so much, the amount necessary to be raised by taxation for the current expense of

the colony. An inconsiderable party opposed all bills of credit, and argued in favor of a specie currency and a real bank of deposit and discount; but these were stigmatized as "capitalists" and "money princes," and, finding the drift of public sentiment almost wholly in favor of an issue of paper money of some sort, were soon compelled to come to the support of the provincial issue, called the "public bank," as the least objectionable of the two plans most in favor. According to Hutchinson, the party favoring the "private bank" was composed generally of persons in difficult or involved circumstances, or such as were possessed of land, but had no command of ready money, or men of no substance at all. They proposed to issue bills which all the members of the company promised to receive as "money," but at no fixed value as compared with gold and silver. The Assembly rather favored this plan, owing to the support given it by the Boston members, but, after a long struggle, the party for the "public bank" prevailed in the General Court for a loan of £50,000 in bills of credit, which were put into the hands of five trustees, to be loaned for five years only, to the inhabitants of the several towns in the ratio of their taxes, in sums of £50 to £500, on real estate mortgage, at 5 per cent interest, one-fifth of the principal to be repaid each year.*

Certainly no scheme for the emission of bills of credit ever was more carefully devised or more scrupulously guarded. But having thus, once for all, demonstrated their prudence and caution, the people and authorities of Massachusetts proceeded to give full swing to their conviction that it was impossible, in a state of colonial dependence, to maintain a metallic currency, and that it was the duty of Government to provide a currency made

* Hutchinson, II., 187 et seq.; Bancroft, III., 386, et seq.; Hildreth, II., 294-5.

and kept equal to the requirements of trade and commerce. New issues of bills of credit were made for the payment of ordinary, current expenses, and to supply deficiencies of inadequate tax levies. Provisions made for the payment of old issues were repealed or ignored and new issues made with no present purpose of redemption. The efforts of the Governor and Council to restrain these issues were unavailing, the Governor's consent, or connivance in disobedience of his instructions, being extorted by withholding his salary. In 1733 there was a general complaint throughout the four New England colonies of the unusual scarcity of money. There was as large a sum current in bills of credit as ever, but the bills having depreciated, they answered the purposes of money so much the less in proportion. Massachusetts and New Hampshire, restrained by the instructions of their Royal Governors, had not issued bills to so great an amount as Rhode Island. Connecticut, being an agricultural colony, with fewer traders, did not so much feel the want of money. The people of Massachusetts complained bitterly that Rhode Island bills should circulate among them to take away their substance to be employed in the trade of the sister colony, and many wished to see the bills of each colony forbidden to circulate outside the limits of that by which they were issued. In the midst of this discontent an act was passed in Rhode Island for a new issue of £100,000, to be loaned to its people for twenty years, who, it was argued, would thus have it in their power to add that sum to their wealth, by purchases of horses, sheep, lumber, fish, etc., from the people of Massachusetts. The merchants of Boston thereupon confederated and mutually promised and engaged not to receive any Rhode Island bills of this new emission. Then, to provide a currency to fill the void in

the circulation, which, it seemed to be universally agreed this action would occasion, a large number of Boston merchants formed themselves into a company, entered into covenants of co-partnership etc., chose directors, and issued £110,000 in their own bills, redeemable in ten years in silver at nineteen shillings to the ounce, the then current rate, but being about three times the true or specie value, according to Massachusetts standard, or in gold in the same proportion, one-tenth part annually. About the same time the Massachusetts treasury, which had long been closed, was opened and the debts of several years were paid at one time in bills of credit. To this was added the ordinary emissions of bills from New Hampshire and Connecticut. Then some of the Boston merchants, tempted by the opportunity, broke their engagement and received the Rhode Island bills, an example which all the rest were speedily forced to follow. All these issues made a flood of paper money, before which silver — then standing nominally at nineteen shillings to the ounce — rose to twenty-seven shillings to the ounce, or, rather the paper which stood at about three to one for specie, sank to a discount of four and one-half of paper for one of specie. Every creditor was thus defrauded of nearly one-half of his just dues. As soon as silver rose to twenty-seven shillings the ounce, the notes issued by the Merchants' Association, payable at nineteen shillings to the ounce, were hoarded up as too valuable for every-day service, and no longer used for the purposes of money.*

As early as 1732 the English Government began to instruct the Royal Governor of Massachusetts to consent to no further issue of bills of credit to remain current longer than the time fixed for the redemption of that already in

* Hutchinson, II., 340, et seq.; Hildreth, II., 354; Felt's Massachusetts Currency.

circulation, the last of which would mature in 1741. It would have been easy to raise each year, by taxation, a sum sufficient to pay the current expenses, and to redeem all the paper maturing during that year. Instead of pursuing this course, the wisdom of which so plainly appears, the revenue from taxation was allowed to fall below the necessary and inevitable expenditure, so that not only were the bills maturing allowed to go unredeemed, but new paper, to fall due in 1741, was each year emitted.* As the time for the payment of this great mass of paper drew near, and as hope grew fainter that the policy against new issues would be relaxed and the promised payment of the bills in some way evaded, a great clamor arose against the Governor, who, in spite of all attempts to starve him into compliance by withholding his salary, adhered resolutely to his instructions. In 1740 it became apparent that it was impossible to levy in one year a tax sufficient to discharge all these accumulations. A general dread of the further depreciation or entire withdrawal of the currency took possession of nearly the whole people. Hutchinson, the historian of Massachusetts, did, indeed, propose to the General Court to borrow in England a sum in silver equal to the bills then extant, and therewith to redeem those bills and thus furnish the colony with a sound currency; the repayment of the loan to be spread over several years so as to escape burdensome taxation in any one. But this plan was rejected in favor of what was called the land bank, or manufactory scheme. It being held that the royal instructions against bills of credit were no bar to private action, the projector and chief advocate of the "private bank" of 1714, hereinbefore mentioned, "put himself at the head of some seven or eight hundred

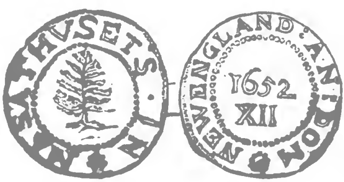
* Hutchinson, II., 339.

persons, some few of rank and good estate, but generally of low condition, of small estate, and many of them insolvent. This notable company were to give credit to £150,000 lawful money, to be issued in bills, each person to mortgage land in proportion to the sum he subscribed and took out, or to give bond with two sureties, but personal security was not to be taken for more than £100 from any one person."* Ten directors and a treasurer were to be chosen by the company. Every subscriber or partner was to pay 3 per cent interest on the sum taken out, and 5 per cent annually of the principal. He that did not pay his dues in provincial bills might pay in the produce and manufacture of the province, at such rates as the directors should fix from time to time, and as they should commonly pass for lawful money. It was claimed by its friends, that by thus providing a medium and currency for trade, not only would the people be better able to procure provincial bills to pay their taxes, but trade, both foreign and inland, would revive and flourish. The principal merchants refused to receive the bills, though they had a large currency among the smaller shop-keepers, mechanics and farmers. To lessen the temptation to receive these bills of the land bank, a number of leading merchants agreed to issue their own notes, or bills, payable in silver at the end of fifteen years, much like the private bank of 1733, and dubbed their scheme the "silver bank." The Governor issued a proclamation forbidding either of these companies to issue bills. But both did make large emissions in defiance of the prohibition. The Governor and Council then applied to the English Parliament, which, early in 1741, declared that the law commonly called the Bubble Act, passed twenty years before

* Hutchinson, II., 353.

on the breaking of the South Sea bubble, which prohibited the formation of unincorporated joint-stock companies with more than six members, applied to all the American Colonies. This declaratory legislation, giving retroactive effect to an old statute, was at the time cautiously cited as "an instance of the transcendent power of Parliament." It was, in substance if not in form, *ex post facto* legislation of a specially dangerous and provoking type, and became, in the end, one of the strongest inducements to the prohibition of such laws which, not many years later, was incorporated in express terms in every American Constitution. Both the banks, or companies, were dissolved. The members or partners were held individually liable for the entire mass of their notes, not at the depreciated rates at which they had been issued, but at par with accrued interest. The manufactory or land bank scheme especially, the affairs of which remained unsettled and in the utmost confusion for several years, proved extremely ruinous to all such persons concerned in it as had anything to lose. Earnest efforts on behalf of these unfortunate speculators, of whom his father was one, first introduced into politics Samuel Adams, afterward so celebrated, then a very young man, a recent graduate of Harvard, designed for the ministry but compelled by his father's ruin and shortly ensuing death, to adopt a more active life. In 1741 a new royal Governor was appointed who construed his instructions as aimed only at preventing a further emission of depreciated currency or a further depreciation of that already afloat. Holding that it did not matter how large a sum in bills was current if only their value was secured, and that neither the spirit of his instructions required, nor the circumstances of the case permitted, the literal observance of

that portion of them which directed the redemption of all outstanding paper in that one year, a scheme was patched up which seemed to promise at least a brief postponement of the evil day. The General Court passed and the Governor, after obtaining at least the tacit approval of the English Ministry, assented to an act intended to establish an ideal measure of value in all trade and dealings, let the instrument of exchange be what it would. This declared that all contracts should be understood to be payable in silver at 6s. 8d. per ounce. The true value of silver at that time was about 5s. 2d. sterling per ounce, but the old Pine Tree coinage of Massachusetts had been



PINE TREE SHILLING.

light weight and 6s. 8d. of that currency had been coined from an ounce of silver, so the standard now fixed was that which had obtained before the first issue of paper and, to that extent, was an honest one. Bills of a new form were issued which bore on their face a promise to pay three ounces of silver for every twenty shillings of their nominal value. These were made a legal tender for all dues, public and private. It was also provided that in case they should depreciate in value an addition should be made to all debts equal to the depreciation of the currency from the time of contract to that of payment. How to ascertain the depreciation from time to time was the great difficulty in framing the act. To leave it to a common

jury never would do, nor could the impartial integrity of the House of Representatives be trusted. At length it was agreed that the eldest member from each county, of the Council, a body answering in some measure to our present State Senates, should meet together once a year and ascertain and declare the depreciation. But the measure afforded no real relief. The counselors appointed to estimate the depreciation seldom had the firmness to make the full allowance as there was a popular outcry against every addition made to the fixed discount. No effectual steps were taken for the redemption and withdrawal of either the new issue or any of its predecessors, save those made by the private companies. Things went from bad to worse. The confusion of the currency was such as seriously to cripple foreign and domestic trade. The depreciation increased and financial chaos seemed to be near at hand.*

The authorities of Massachusetts seemed now to be possessed of a spirit near akin to desperation. For the operations which resulted in the capture of Louisberg and conquest of Cape Breton in 1745, and for the several attempts at the reduction of the other French Colonies made in 1746 and 1747, this province issued new bills of credit to the nominal value of more than £2,000,000. These were paid out by the treasury at an average discount of eleven or twelve of paper for one of specie. It becoming apparent that either redemption or repudiation must be faced in the near future, the General Court was, though with difficulty, persuaded to levy taxes sufficient to retire a considerable portion of the redundant paper. In 1747, on the application of the agent of the province, the English Government granted Massachusetts an allow-

* Hildreth, II, 379 et seq ; Hutchinson, II, 253 et seq.

ance, of £180,000 for the partial reimbursement of the expenses of the conquest of Cape Breton. This sum would become available, in specie, in 1749. Thomas Hutchinson, the historian, who was then speaker of the House of Representatives, who also was warmly supported by Governor Shirley, perceived in this a favorable opportunity for abolishing the bills-of-credit system and substituting a stable currency of silver and gold for the future. About £2,200,000 in bills would be outstanding in the year 1749. At eleven for one — although the current rate was twelve for one — £180,000 sterling would redeem £1,980,000, which would leave but £220,000 outstanding. It was therefore proposed that the sum thus granted by Parliament should be shipped to the province in Spanish milled dollars, and applied to the redemption of the bills, so far as it would serve, and that the remainder of the bills should be drawn in by a tax for the year 1749. This would dispose of the bills. For the future, silver of sterling fineness at 6s. 8d. the ounce if paid in bullion, or in milled dollars at 6s. each, should be the lawful money of the colony, and no person within the province should receive or pay bills of credit of any of the other English Colonies. When it became known that a bill for an act on these lines had been introduced in the Provincial House of Representatives, a great clamor was raised against it. It was said that the greater part of the people were no sufferers from a depreciating currency, as the number of debtors was always greater than that of creditors. Even those who were for a stable currency were divided. Some argued that the paper might be so reduced in volume as to be fixed and stable in value, and therefore were for redeeming only so many bills as should be agreed to be superfluous. Others, including many of

good standing and good sense, were for finishing the bills, but in a gradual way, otherwise, they said, a fatal shock would be given to business. The bills, it was said, had sunk gradually to one-twelfth their original value, and, as by this means creditors had been defrauded, it was but reasonable that they should rise gradually that justice might be done. To this it was answered that the creditors and the debtors would not be the same, so, that instead of righting one wrong, another injustice would be done; the injury being the same when one is obliged to pay more, as when he is forced to receive less, than is justly due. Others were for exchanging the bills for silver at a higher rate, the Boston representatives favoring a ratio of about five to one, which would have given an exorbitant profit upon that redeemed, and would have left more than half the volume outstanding. These were the objections urged by the most reasonable and most intelligent. The strongest opposition came from the ignorant and the interested who strove to impress the people with the contradictory ideas, first, that no redemption should be made because if there were no other money than silver it would be engrossed and hoarded by the rich, and that the poor would get no share of so precious a commodity; and second, that if the bills were redeemed at all it should be at their nominal and not at their actual value. After debating the bill for many weeks the Assembly reached a vote upon the proposition as a whole, and, after once rejecting the bill, finally passed it. After this favorable action the measure speedily received the sanction of the other branches of the General Court and became a law early in 1750.

The indemnity money having arrived in specie, the paper, amid much public gloom and doubt, was redeemed

at a rate about one-fifth less than the current value; and for the next quarter of a century Massachusetts enjoyed the blessing of a sound currency. Resolved to drive the other New England colonies into the same measure she, in the redemption legislation of 1750, prohibited the circulation of their paper within her limits. Connecticut called in and retired her bills of credit, but Rhode Island, the most persistently given to inflation of any of the old

CONNECTICUT CENT.

colonies, refused to follow the lead of her more conservative neighbors. Forgetting former constitutional scruples as to the extent of parliamentary right to interfere with the domestic affairs of the colonies, Massachusetts, in 1751, applied for, and obtained an Act of Parliament prohibiting the New England Assemblies, except in case of war or invasion, to issue any bills of credit, for the redemption of which, within the year, provision was not made at the time of issue, and expressly forbidding that any such bills should, in any case, be made a legal tender.*

The experience of the other colonies issuing paper money, was, on the whole, very like that of Massachusetts and South Carolina. In some of them matters came to a worse pass, in others the trouble never reached so grave a stage. The expansion and depreciation and attendant disorder were greatest in Rhode Island and least in Penn-

* Hutchinson, II., 391-396; Hildreth, II., 406.

sylvania. We have already noted the circumstances under which Rhode Island, in 1707, first issued bills of credit. It 1715 this colony authorized its first "bank," on the plan of South Carolina and Massachusetts, for £30,-000 to be loaned out for ten years. In 1728 the time for payment was extended to thirteen years, and then ten years more were allowed, without interest beyond the first thirteen years. In 1721 a second bank of £40,000, was issued and loaned out for five years, which term, in 1728, was also extended to thirteen years, and, at the same time the interest made payable in hemp or flax. In 1733

VERMONT CENT, 1786.

a new bank of £100,000 was struck off and loaned out. Bills of credit were issued for current public expenditures which should have been met by taxation, and loan banks were authorized on any and every pretext. Those who took loans after the expiration of a portion of the period for which each bank was lent out, complained that they were compelled to pay back within a time shorter than that for which those who borrowed when the bank or loan was new were allowed to enjoy the use of the money. These and other applicants for loans clamored for new banks on the ground of "justice" and "equalty." All who had received loans were heartily in favor of new banks as the currency depreciated with each issue and they were thus the more easily able to pay back. But repayment of these loans was the exception rather than the rule. Titles

to mortgaged estates were found to be in such confusion that little could be made from them. The legislature was composed too largely of men who were themselves borrowers to allow any effectual measures for collection to be taken. Foreclosures were rare and did not pay expenses of the proceedings. In 1750 the ninth loan bank was authorized to pay a bounty on manufactures of wool and on the cod and whale fisheries. The several issues were then at various stages of depreciation, "old tenor" standing at about eight or nine of paper for one of specie. The Act of Parliament of 1751, forbidding further issues of paper save under the restrictions noted in the account given above, of affairs in Massachusetts, stopped further issues for a time. But the quantity of paper in circulation was so large that the shrinkage continued, and when, in 1763, the courts fixed a scale of depreciation for the settlement of old debts, it put the Spanish milled dollar, worth 4s. 6d. sterling, at £7 in notes, a ratio of about thirty of paper for one of specie. Although some pretense at redemption was made, Rhode Island managed her financial affairs wildly and recklessly to the end of the colonial period. Her policy throughout was so far the reverse of business like, honest or honorable that her relations with her sister colonies were least amicable of the thirteen, and her bills of credit were so debased as to be little better than a pest to herself and her neighbors.*

Pennsylvania, as we have said, suffered least of all the colonies which adopted the loan-bank system. In the rare instances in which this colony issued bills of credit to meet demands on the treasury, the sums were insignificant and the bills so emitted were promptly redeemed. The loan banks were also small in proportion to the

* Winsor's Narrative and Critical History, V., and authorities there quoted; Potter's R. I. Paper Money; Arnold's R. I.; Phillip's Coln. and Cont. Paper Money, I.; Hildreth, II.

wealth and population of the province and were strictly managed. The first issue was made in 1722, of £15,000, to be loaned on the security of real estate mortgages or upon gold or silver plate deposited in the loan office. The loan was to run for eight years at five per cent, the interest and one-eighth the principal to be paid annually. Loan offices were established in each county. The smallest loan made was £10 10s. and the largest £100, unless bills lay in the offices six months without borrowers, in which case £200 might be lent one person. The bills were a legal tender and the penalty for refusing to receive them was confiscation of the debt or forfeiture of the commodity. A proportionate penalty was imposed on any one who bargained or sold any article for a less sum if paid in specie than for paper. In 1723 £30,000 more in bills were issued to be lent upon the same terms. In

FRANKLIN PENNY, 1787.

1730, when the time arrived for the redemption of these issues, an Act was passed increasing the amount to £75,000, and providing for reissues sufficient to keep that sum in constant circulation. This was consented to by the English proprietaries only on condition that they should receive an equivalent for any loss on their quit rents by the depreciation of this paper, and that their Governors should be strictly instructed to consent to no further issue on any terms. Benjamin Franklin wrote an essay, published in 1729, advocating this measure, in which, from a

just and clear view of the utility and effects of banks of deposit, he deduces an argument in favor of the radically dissimilar loan bank then in vogue; overlooking the fundamental truth that the value of a paper promise to pay depends fully as much on the certainty and reasonable nearness of the time at which it is to be paid, as upon the sum named or the credit of the promisor. The quantity of paper issued being thus rigorously limited, the Pennsylvania bills kept their value so well that they were commonly used as bills of exchange between the other colonies. This prudent reserve, imitated in Maryland and enforced by royal instructions in New Jersey and New York, saved the paper currency of the middle colonies from that excessive depreciation by which New England and the Carolinas were impoverished and disgraced. But the average discount on the bills of even these provinces was from twenty to thirty-three per cent. There was not a single colony in which paper money stood at par.*

Virginia appears to have issued no loan bank, nor is there any record of the use of bills of credit until 1755, and then for a comparatively moderate sum only. Maryland's first and only loan bank was issued in 1733. Connecticut first authorized the issue of paper to be loaned in the same year, and in 1751 followed the example of Massachusetts in retiring its paper. New York suffered but little from the loan-bank craze, but its government made repeated and scandalous issues of bills of credit for the payment of trumped-up and fictitious claims upon the treasury. New Jersey, in 1721, created a loan bank of £40,000 to be lent out in small sums. Another was authorized for £20,000, in 1728. These, with a few emissions of bills of credit to meet temporary deficiencies,

* Holmes, II., 110 et seq.; Hildreth, II., 321, 312, 439, 451; Spark's Franklin, II., 253.

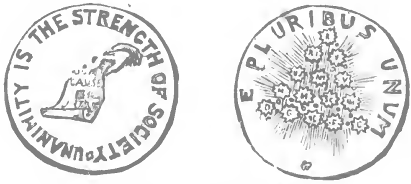
and for the equipment of troops to take part in the wars with the French in Canada, seem to have been the limit of the issues of paper in this province, and the common rate of depreciation was about two of bills for one of specie.*

* Hildreth, II., Gouge, II., and authorities cited heretofore.

Chapter VI.

THE REVOLUTIONARY PERIOD.

Banking, in any sense in which the word is now understood, had its birth in America during the revolutionary period lasting from 1775 to the adoption of the Federal Constitution in 1788. Yet the financial policy of the Confederation, while directed by the Continental Congress, as well as that of nearly every one of the thirteen states during the same time, was so far a repetition of the worst sins of the colonial period as to make legitimate private banking impossible for the greater part of this term and difficult or unprofitable for the remainder. Until the constitutional prohibition of bills of credit and of legal-tender paper came into force there was no room for the modern bank.



KENTUCKY CENT, 1791.

It was estimated that just before the war of the revolution broke out, the whole "circulating cash" of the thirteen colonies was equal in value to about $12,000,000, or perhaps not more than $10,000,000, in hard money, and that the proportion of paper included in this total was from one-half to three-fifths of the whole. So the total of specie may have been anywhere from $4,000,000 to

$6,000,000. Great as was the nominal expense of that war it is altogether probable that this sum in specie, together with what would have come from abroad, or even with what actually did flow in from French and Dutch loans and from sums paid out in the country for the support of the British and French armies, would have been ample for every occasion. The people of the thirteen colonies were then, in proportion to their numbers, more opulent than those of France, and, had they possessed the inclination and the means of organizing their resources, easily could have paid the price of their independence without resorting to a disastrous and demoralizing issue of paper.

The most pressing necessity which confronted the second Continental Congress when it convened May 10, 1775, was that of providing money to carry on the war which, with the battle of Lexington, fought the month before, was now flagrant. Having no authority to levy taxes directly, and unwilling to await the slow process of a call upon the states for money, on June 23, in conformity with the suggestion of the New York Provincial Congress, it was voted to issue $2,000,000 in continental bills of credit. The new paper did not get into circulation until the next August. Other issues followed rapidly. For about one year, and until the paper in circulation exceeded $9,000,000, the bills were freely received at their nominal value, no distinction being made in ordinary transactions between continental money and gold. The liability for the bills was distributed among the colonies, subject to future revision in the ratio of the supposed "number of their inhabitants, of all ages, including negroes and mulattoes;" and were to be redeemed in four annual installments, to commence at the end of four years.

With successive issues the time for the commencement of redemption was extended, first to eight years and finally to eighteen years for the latest issues. In February, 1776, the first issue of continental notes of less denomination than one dollar was authorized. In 1777, when continental bills had sunk to one-half their nominal value, Congress denounced every person who would not receive them at par as a public enemy, liable to forfeit whatever he offered for sale; and requested the States to declare the notes a lawful tender. Massachusetts had already made them legal tender and this example was at once followed throughout the Union. The several States were at the same time invited to cancel their respective quotas of continental bills. They all had irredeemable currencies of their own, and, as they possessed nearly all the real powers of government, under the Confederation, their bills were less insecure than the continental currency. Congress, therefore, urgently needed the exclusive right to issue paper money, if by bills of credit the war was to be prosecuted, and to that end recommended the States to call in their bills and to issue no more. This request was often renewed but never heeded; so the notes of each one of the thirteen states continued to compete for circulation with those of the Continental Congress. The value of the continental currency was further impaired in 1776 by the ignoble stratagem of the British Government, under whose authority Lord Dunmore and others put into circulation in Virginia and other States a large number of counterfeit bills manufactured for that purpose in England. In 1779 this counterfeit money had become so largely circulated by the agents making purchases for the British army, who were regularly supplied with it, that Congress was compelled to recall, for other paper, two entire emis-

sions of $5,000,000 each. The excessive issue was, however, the principal and all-sufficient occasion of its depreciation. As we have seen about $9,000,000 of it circulated at par with gold. No very marked signs of depreciation appeared until $20,000,000 had been issued, or until about January, 1777. The ratio of depreciation was then one and one-fourth of paper for one of specie. Before the end of that year it became four for one. At the end of 1778 it reached ten for one. When, in September, 1779, the ratio had fallen to twenty for one, Congress determined that the total issue should not exceed $200,000,000, renewed the declaration that this currency should be redeemed in full, and went into a lengthy argument to prove that the States had the ability to do so, but did not stick to its resolution to restrict the issue. In March, 1780, these issues had so depreciated that their value as compared with specie was as forty to one. Congress now required the whole to be brought in for redemption at its market value in coin, and authorized the emission of new notes bearing interest at five per cent, and payable in six years from date in silver and gold. These were to be exchanged in proportion of one dollar of the new for twenty of the old. During 1780 the bills sank to one hundred for one. By May 31, 1781, they had fallen to five hundred for one, or two-tenths of a cent on the dollar; after which they ceased to circulate as money. They continued to be bought on speculation at ratios varying from four hundred for one to one thousand for one of specie. Massachusetts, Rhode Island and New Hampshire redeemed their quotas of continental currency by receiving it for taxes at the rate of forty for one. Connecticut, Delaware, the Carolinas and Georgia took up none. The other states redeemed parts of the quotas

assigned to them at the same rate as Massachusetts. The estimates of the total issues of continental currency vary astonishingly, as authorities of seemingly equal credit reach amounts as widely apart as $200,000,000 and $350,000,000. The last figure seems to be nearest the truth, although it is probable that no more than $200,000,000 of it was in circulation at any one time.*

Beside the continental paper issued by Congress, all of the States put out bills of their own. In some States, as Massachusetts and Pennsylvania, these bills were ultimately called in and funded at their nominal value. In others, especially at the South, they were partially redeemed by the issue of land warrants. The remainder shared the fate of the continental currency, being either repudiated outright or funded at an immense depreciation. No State made such profuse issues as Virginia, and such of her bills as were not paid in for land warrants — and enough of these bills could be bought for five dollars in specie to purchase a warrant for seven hundred acres of land — were finally funded at the rate of one thousand for one. The total issue of these State bills of credit from 1774 to 1783 was upward of $210,000,000. The benefits which the Continental and State governments derived from all these issues were in no way commensurate with the burdens which they entailed upon the people. According to the estimate of Mr. Woodbury, secretary of the treasury from 1834 to 1841, the depreciation and subsequent repudiation of the continental currency entailed upon the country an aggregate loss of $196,000,000, most of which fell upon the friends of the revolutionary cause, as the Tories either declined to receive that paper or parted with it as soon as possible. Pelatiah Webster, writing in 1780, declared that

* Hildreth, III.; Bancroft, X.; Gouge, II.; Essays of Pelatiah Webster.

the country suffered more from this depreciated currency than from every other cause of calamity; that it killed more men, did more to corrupt our choicest interests, and worked greater injustice than all the armies and artifices of our enemies.*

"Shay's Rebellion" which broke out in New England in 1785 and 1786 was an insurrection of debtors who were suffering from the collapse of the currency and the return to specie values. They were clamorous for paper money. Although no concessions were made to the rioters in that particular, Massachusetts did pass a law delaying the collection of debts. In Rhode Island this movement was not riotous, but took the form of a new political party. The paper-money party carried the elections in 1786, and then began a new period of this mania. Bills amounting to £100,000 (there was yet no federal monetary system or coinage) were issued, by the vote of the rural towns against the cities, and loaned on mortgage of land for fourteen years. They were made a legal-tender and depreciated at once. Merchants refused to receive them and closed their shops. The farmers retaliated by refusing to bring food into the cities, and a ridiculous struggle followed which brought business to a stand-still. The paper-money party met and petitioned the authorities to enforce the penal laws against those refusing to receive the bills. By these laws cases involving a legal tender took precedence of all others and must be tried within three days after complaint made, without a jury, and without right of appeal. The fine for a first offence was from £6 to £30, and greater for a second. In a case brought against a butcher for refusing bank paper, five judges agreed the act was unconstitutional. A

* Hildreth, III.; Bancroft X.; Gouge, II.; Webster's Essays. Bolles, I.

special session of the Assembly was called and the judges were summoned to assign the reasons and grounds of their decision, and subsequently, four of them were removed. A law was proposed which disfranchised any one who refused to receive the paper on an equality with specie, but this failed to receive the sanction of the towns. Land rents were paid in produce. The State debt, incurred during the revolution, was paid off in the depreciated currency. The question of the ratification of the new federal constitution coming up at this time, the paper-money party was strong enough to procure its rejection and keep Rhode Island out of the Union for three years. When, in 1787, numerous suits were brought in the courts for the redemption of estates from mortgages, "the suitors came prepared with paper money in handkerchiefs and pillow cases to redeem their lands." The money continued to depreciate until 1789, when the legal-tender laws were suspended and the depreciation fixed by law at eighteen for one. The people of Rhode Island were, at that time, thoroughly imbued with the belief that money is something which derives its value from the authority of government. They gave to fiat paper money all the countenance and support which public opinion, public favor and the most stringent laws in its aid could afford. The result was wide-spread pecuniary disaster and financial and moral disgrace to the people, while the State came dangerously near to extinction through partition and annexation to Massachusetts and Connecticut.*

In May, 1780, Robert Morris, George Clymer and other leading citizens of Philadelphia associated themselves under the name of the Bank of Pennsylvania, and having subscribed a small capital in hard money, com-

* Bolles, I.; Hildreth, IV., 209.

menced the issue, as a joint-stock bank, of promissory notes, which were employed without profit to themselves in the purchase of supplies for the army. Congress deposited with the bank a considerable sum in bills of exchange drawn upon John Jay, then negotiating a loan in Spain, as a support to their credit and indemnity in case of loss. This bank was of very considerable service in procuring and forwarding supplies. It continued in existence until after the end of the war, finally closing its affairs toward the end of the year 1784.*

On May 17, 1781, a plan for a national bank was submitted to Congress by Robert Morris, the principal provisions of which were as follows: The capital was to be $400,000 in shares of $400 each; each share to have one vote for directors; the directors to be twelve in number, chosen from the stockholders, who at their first meeting were to choose a president from themselves; the directors to meet quarterly; the board to be empowered from time to time to open new subscriptions for the increase of the capital stock; regular statements of its condition to be made to the continental superintendent of finance, and it to be at all times subject to his examination; the notes of the bank to be payable on demand over its counter and to be made by law receivable for taxes and duties in every State, and from the several States by the treasury of the United States. On May 26 Congress adopted a resolution approving this plan, promising to promote and support the same by such ways and means, from time to time, as should appear necessary for the institution and consistent with the public good; and providing "that the subscribers to said bank shall be incorporated agreeably to the principles and terms of the plan, under

* Hildreth, III. 310; Domet, 3.

the name of 'The President, Directors and Company of the Bank of North America,' so soon as the subscription shall be filled, the directors and president chosen, and application for that purpose made to Congress by the president and directors elected." On December 31, following, Congress passed "an ordinance to incorporate the subscribers to the Bank of North America." The first president was Thomas Willing. The bank opened for business at Philadelphia on January 7, 1782. Its success was immediate and complete. Its issues which at first circulated in the eastern States only, at a discount of ten to fifteen per cent, speedily rose to par and were sustained at that point without further difficulty. It was of great and timely service to both the Federal and State Governments. Of its original capital of $400,000 which it might increase to $10,000,000, the Federal Government subscribed $254,000. In April, 1782, Pennsylvania granted its first State charter, an example followed by several other States. In 1783 and 1784 it declared dividends averaging fourteen per cent. In this last year the directors were warmly urged to increase the capital stock in order to allow new subscribers to share in the business, and on their refusal an application was made to the Legislature of that State to charter a rival concern to be called the Bank of Pennsylvania. The Assembly was "plagued with long arguments on both sides" and endless evils were prophesied in case two banks attempted to do business in opposition to each other. But "all at once the thing was hushed up and accommodated." The directors consented to increase the capital to $2,000,000 and to allow the projectors of the new enterprise to become stockholders in the old. In 1785 a new party arose in Pennsylvania which demanded the issue of more paper money by the State on the plan of the colonial land-loan

schemes. The credit of that State being manifestly too bad to float such a currency, it was demanded of the bank that it should give its credit to the proposed issue. As the directors were both unable and unwilling to do this, and as it had prudently limited its own issues of notes, the bank was regarded as the opponent of the paper-money scheme, the friends of which were powerful enough to obtain by way of revenge, a repeal of its Pennsylvania charter in September, 1785. Although this action did in some measure shake the confidence of the public in the bank, the stock of which fell to a discount of five per cent, it continued to do business under its continental charter and charters granted it by other States. It was even proposed to remove the bank to Wilmington or to New Castle, in Delaware, by which State one of its charters was granted. In 1787, after several efforts to procure from Pennsylvania a renewal of its charter, the Legislature of that State granted a new one, though quite unlike the first. In 1789, when the present Federal Government went into operation, its charter from the congress of the confederation was held to have lapsed, and, though the bank was invited to take a national charter, it preferred to remain a State institution under the laws of Pennsylvania. Passing through many vicissitudes, it was rechartered from time to time by that State until, on March 3, 1864, it was converted into a national bank. It is still doing business under the national banking system, with a capital of $1,000,000 and a surplus in excess of its capital.*

The success of the Bank of North America induced the organization of the Bank of Massachusetts, in Boston. This bank received its charter from the State of Massa-

* Lewis's History of the Bank of North America; Hildreth, III., 405; Gouge, II., 31; Webster's Essays.

chusetts on February 7, 1784. Its original capital was $300,000, and the charter "allowed three dollars of currency for one dollar of metallic deposit." The restrictions placed upon its officers did not permit the lending of more than "$3,000 to any individual at one time, and but $5,000 in the aggregate to any one borrower." Loans could be granted for no more than sixty days upon the pledge of merchandise, bullion, or other securities as collateral, and for thirty days only on personal obligations with two sufficient sureties, "without the privilege of renewal on any terms." It continued as a State bank until 1864, when it reorganized under the national banking law, and is now doing business as the Massachusetts National Bank of Boston, with a capital of $800,000.

The merchants of New York were but a few days behind those of Boston in following the lead of their competitors in Philadelphia. The success of the Bank of North America stirred up the speculative element in New York, and, on February 12, 1784, a proposal was advertised in the *Packet* newspaper for the establishment of an institution to be called the Bank of the State of New York, with a capital of $750,000, in shares of $1,000 each. The management was to be in the hands of a governor and six directors, who were to serve without pay until the first dividend was declared. Two of the directors and the governor were to attend constantly at the bank, and no money was to be paid out without their consent. The subscribers were to pay one-third their subscriptions in "cash," and for the other two-thirds "landed security" was to be given by mortgage or deed of trust. No lands outside New York and New Jersey were to be accepted, and all lands were to be appraised at not more than two-thirds their value. The directors could borrow "to the

extent of one-third of the value of the lands" in case they found it necessary to increase the cash resources of the bank, but no further. The folly and danger of this scheme, which was nothing but the old land bank with little more than a semblance of disguise, was quickly perceived; but it served to hasten the action of those who desired a really sound banking institution in that city.

After several meetings had been held, a number of leading business men, on February 26, 1784, agreed upon a plan for creating a bank, to be called the Bank of New York, under which an organization was speedily effected. This provided for a capital stock of $500,000 in silver or gold, to be divided into one thousand shares of $500 each; that as soon as five hundred shares should be subscribed a meeting of the subscribers should be held to elect a president and twelve directors; that at all meetings of subscribers or share-holders every subscriber or stockholder should have one vote for each share of stock held by him to the number of four; the holder of six shares to have five votes, for eight shares six votes, and for ten shares seven votes; but no stockholder should have more than seven votes, be the number of his shares ever so great. This last provision was afterward amended to allow one vote for every five shares in excess of ten. A dividend was to be made at the end of the first year, and semi-annually thereafter. To encourage trade, the proprietors of the bank fixed the rate of discount at six per cent. Sufficient stock having been subscribed, officers were elected March 15, 1784. Alexander Hamilton was among those chosen on the first board of directors; and the "constitution" under which it commenced operations was written by him. As none of the newly-selected officers, nor any other trustworthy person in New York, was

familiar with the methods of banking business, the cashier, Mr. Seaton, was dispatched to Philadelphia with a letter of introduction from Hamilton, to procure the desired information from the Bank of North America and to purchase such material as could not be had in New York. On May 22 "the president and directors qualified before His Worship the Mayor as required by the constitution" of the bank. On June 7, the subscriptions having been paid in, and some deposits having been made, notice was given that the bank would formally commence business on Wednesday, June 9, 1784; and that applications for discount would be received on the succeeding Wednesday. The following rules, to be observed in transacting business with the bank, were also published:

"The bank will be open every day in the year except Sundays, Christmas-day, New-year's-day, Good Friday, the Fourth of July, and general holidays appointed by legal authority.

"The hours of business will be from ten to one o'clock in the forenoon, and from three to five o'clock in the afternoon.

"Discounts will be done on Thursday in every week, and bills and notes brought for discount must be left at the bank on Wednesday morning, under a sealed cover, directed to William Seaton, Cashier. The rate of discount is at present fixed at six per cent per annum; but no discount will be made for longer than thirty days, nor will any note or bill be discounted to pay a former one. Payment must be made in bank notes or specie. Three days of grace being allowed upon all bills, the discount will be taken for the same.

"Money lodged at the bank may be redrawn at pleas-

ure, free of expense, but no draft will be paid beyond the balance of the account.

"Bills or notes left with the bank will be presented for acceptance, and the money collected free of expense; in case of non-payment and protest, the charge of protest must be borne by the party lodging the bill.

"Payments made at the bank must be examined at the time, as no deficiency suggested afterward will be admitted.

"Gold coin is received and paid at the Bank of New York at the following rates:

A Johannes	Weigh'g	18	dwt.			$16.00
A half Johannes	"	9	"			8.00
A Spanish doubloon	"	17	"			15.00
A double Spanish Pistole	"	8	"	12	gr.	7.48
A Spanish Pistole	"	4	"	6	"	3.72
A British Guinea	"	5	"	6	"	4.64
A British half Guinea	"	2	"	15	"	2.32
A French Guinea	"	5	"	4	"	4.52
A Moidore	"	6	"	18	"	6.00
A Caroline	"	6	"	8	"	4.72
A Chequin	"	2	"	4	"	1.78

"An allowance is made on all gold exceeding the above standard at the rate of three pence per grain; on all gold short of the above weight four pence per grain is deducted.

"By Order of the Board of Directors.

"ALEXANDER McDOUGALL, Pres't."

Both the Johannes and the Moidore were gold coins of Portugal; the Johannes being so called from the figure of King John which it bore. The Caroline was a German coin, and the Pistole was of the same value as the Louis d'or. The Chequin, also written zeechin, zechin, and sequin, was a gold coin deriving its name from La Zeche,

that quarter in the city of Venice where the mint was situated. The clipping and sweating of the gold coin in circulation had long been practiced in the colonies. In 1770 the New York Chamber of Commerce stigmatized it as "an evil and scandalous practice," and passed a resolution to take no light coin except at a discount of four pence for each grain it fell short of just weight. The bank experienced much trouble from this source. The practice was to weigh it in quantities on receiving and paying out gold, a course attended with many difficulties where the varieties of coin were so numerous, but for which, in the absence of a national coinage, it was not easy to find a substitute. The paper currency of Pennsylvania and New Jersey, which circulated largely in New York, was a cause of endless trouble and vexation to the bank and to its customers.

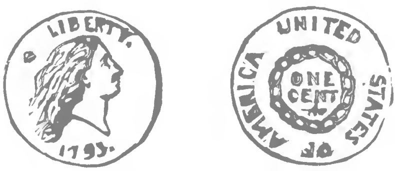
Application had been made to the Legislature of New York for a charter incorporating the bank before it began business; but this was delayed and operations were begun without it. As in Pennsylvania, a paper-money party existed in New York which persistently opposed the efforts of the bank to obtain a charter. The direst evils were predicted from the establishment of the bank, and it was maintained that the only remedy for existing and threatened evils was to be found in an emission of legal-tender paper by the State. The directors were popularly charged with working in the interest of British capitalists and traders, and with refusing discounts a few days before the sailing of the European packet that they, personally, might profit by the distress thus occasioned. The bank, it was contended, had destroyed private credit as well as that confidence, forbearance and compassion formerly shown by creditors to their debtors. The enforc-

ing the payment of notes at maturity by lodging them at the bank was especially disliked.

A strong pressure was now brought upon the Legislature in favor of an emission by the State of paper money, to be made a legal tender. The merchants of New York, as a body, opposed the scheme, and the Chamber of Commerce forwarded a memorial remonstrating against the passage of any bill to that effect, and setting forth the evils which would result from such an issue. But outside the city there was a general belief that financial relief and permanent prosperity would come only with an abundance of paper money. The experience of the past had not deterred people from this conviction, and several of the States had recently issued bills of credit. The Legislature passed a bill in 1786, authorizing the emission of $200,000, to be loaned out at five per cent, "for the purpose of increasing the currency," and to be a legal tender for all dues, public and private. This was the last issue of bills of credit by New York. In June, 1787, the paper money issued by the State having then obtained a considerable circulation and being largely depreciated, the Bank of New York decided to open accounts and make discounts and payments in this currency, distinct from those in specie or the bills of the bank. This was continued for several years, discounts in paper being done on Tuesdays and in specie on Thursdays. In 1791 the bank obtained its first charter from the State, and on May 2, of that year the directors named in the Act of incorporation formally accepted the charter, assumed all the existing liabilities of the former company, and re-elected the former officers. Its paid-up capital was then $318,250, with deposits amounting to $773,709, and discounts $845,940. The circulating notes outstand-

ing were $181,254. The business flourished and semi-annual dividends were regularly declared; that for the first half year under the charter being for seven per cent. During the same six months, May to November 1791, the discounts were $10,558,669, and the total cash received was $42,661,664. These figures will illustrate the extent of mercantile transactions in the City of New York at that time.

The Bank of New York enjoyed a substantial monopoly of the banking business in that city for fifteen years. From 1784 to 1799 it had no competitor nor rival, save the branch of the Bank of the United States which during



CHAIN CENT OF 1793.

this time did but little business. It had obtained its charter with great difficulty and those interested in its prosperity could scarcely be expected to look with complacency on any attempt to establish an institution to compete with it. "Neither," says its historian, "did the public desire any additional banking facilities." Had any open attempt been made to obtain a State charter for a rival concern, the older bank undoubtedly would have opposed it to the bitter end. But suddenly and without premonition a formidable corporation made its appearance as a bank of deposit, discount and issue in New York. This was the result of the craft and sagacity of Aaron Burr. In the spring of 1799 a petition was presented to

the Legislature asking for a charter for a company with a capital of $2,000,000 for the purpose of introducing a supply of pure water into the City of New York. The prevalence of yellow fever during the summer before had been largely ascribed to the use of contaminated water, and had created an alarm which made the passage of any bill to improve the sanitary condition of that city an easy matter. Toward the end of the session the bill incorporating the Manhattan Company was accordingly passed by the Legislature, without a suspicion on the part of the great majority of those who voted for it that it contained a grant of banking privileges or indeed anything else but a franchise for the distribution of pure water. But the real purpose of the scheme was soon made manifest. While the bill had been on passage through the committee stage it had been suggested that the whole of the new corporation's $2,000,000 capital might not be needed at once in constructing water-works, and a clause was added providing that the surplus capital might be "employed in the purchase of public or other stocks, or in any other moneyed transactions or operations not inconsistent with the laws and constitution of the State of New York." No sooner had the bill become a law and the stock fully subscribed, than the persons interested proceeded to carry out their plans by giving notice that the new corporation would begin banking operations in September with a capital of $500,000. The discovery that so broad a franchise had been so incautiously granted occasioned no little excitement and indignation. It was charged that the Legislature had been cheated and tricked in order to allow Burr and his friends to obtain control of a majority of stock of the company and power to use its capital for their own purposes. But it was too late. The Man-

hattan Company continues to this day to be the leading state bank of New York, as distinguished from the national banks, and, under the same broad clause of its charter has organized life and fire insurance companies and conducted a great variety of other enterprises.

On July, 6, 1865, the Bank of New York re-organized under the national banking act, taking the title of "The Bank of New York National Banking Association," which it still retains, with a capital of $2,000,000. During the first hundred years of its existence it paid to its stockholders dividends amounting, in the aggregate, to 910½ per cent, and never passed a dividend except in 1837 when it was compelled by law to do so.*

* Domett's History of the Bank New York.

Chapter VII.

THE FIRST AND SECOND BANKS OF THE UNITED STATES.

On the organization of the government of the United States under the present Constitution, Alexander Hamilton, Secretary of the Treasury, in his masterly report on the finances of the country, made to Congress December 13, 1790, recommended the establishment of a bank of the United States and opposed the issue of paper money by the Government. At that time there were in existence in the country only the three banks—the Bank of North America, the Bank of Massachusetts and the Bank of New York, with an aggregate capital of about $2,000,000—of whose organization sketches have been given. There was no provision for the reception and paying out of the bills of these banks by the Government and the supply of gold and silver was meagre. The Government daily suffered for the want of small sums in ready money. So long as specie only could be used, and there was no national bank, the delay and expense incurred in transferring money from place to place were burdensome and vexatious. Therefore, it was argued, a national bank was imperatively required, which would not only serve these purposes but many others as well, by making temporary loans to the Government. The bill for the bank was debated chiefly on two grounds—its constitutionality and its expediency. It passed the Senate with little opposition but was vigorously resisted in the House of Repre-

sentatives. On February 8, 1791. the House passed it by a vote of thirty-nine to twenty. Before signing it, President Washington required each of his cabinet officers to submit a written opinion on its constitutionality. The Cabinet was equally divided. Hamilton, Secretary of the Treasury, and Gen. Knox, Secretary of War, affirming its constitutionality, and Jefferson, Secretary of State, and Edmund Randolph, Attorney General, denied it. But the bill became a law by the President's approval, on Feb-

SILVER HALF-DOLLAR OF 1794.

ruary 25, 1791, and the bank at once went into operation. The capital was fixed at $10,000,000, divided into 25,000 shares of $400 each; one-fifth of which might be subscribed by the United States, but no other subscriber might take more than 1,000 shares. The subscriptions, except that of the United States, were to be payable one-fourth in specie and three-fourths in certain six per cent stocks of the United States or in other three per cent stocks at half their nominal value. The institution was incorporated under the style of "The President, Directors and Company of the Bank of the United States," to continue twenty years, expiring March 4, 1811. The bank was authorized to hold property of all kinds, not exceeding, exclusive of its capital, $15,000,000. Twenty-five directors were to be elected, by a plurality of votes, on

the first Monday of January in every year, for one year only, who were to choose a president from their own number. It also provided "That no other bank shall be established by any future law of the United States during the continuance of the corporation hereby created, for which the faith of the United States is hereby pledged." The bank was authorized to establish offices of discount

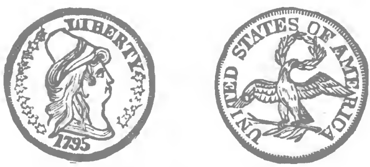
SILVER DOLLAR OF 1794.

and deposit in the several States, and to issue notes which were to be received in payment of all dues to the Government. It was authorized to sell the Government stocks received for subscriptions, but was forbidden to become the purchaser at such sales. Of the capital, $5,700,000 was reserved for the chief bank, which was

SILVER HALF-DIME, 1794-5.

established at Philadelphia, and the residue of $4,300,000 was to be divided among the eight branches to be established in the principal cities of the Union. The entire capital was subscribed and applications made for 4,000

shares in excess of the whole stock, within two hours from the time the books for subscriptions were opened. The enterprise was immediately successful. The dividends averaged eight to ten per cent per annum, being much below those of the Bank of North America in previous years; which, in the words of a distinguished writer, "now gradually declined as other banks sprang into existence." The payment of the Government shares



HALF EAGLE OF 1795.

was to be in ten annual installments, but the treasury department found it very difficult to comply with this requirement as to the entire payments, the urgent demand for money to meet other pressing occasions being continuous for several years. Neither bank nor Government had been long in operation when the need arose for a temporary loan from the bank. Congress authorized the treasury to procure loans to pay the appropriations of the

SILVER DIME OF 1796.

year, and to pledge the duties on imports and the tonnage tax for their repayment. The revenue came in so slowly that its anticipation in this manner could not be avoided if Government expenditures were to be paid as they

became due. This policy was condemned by Albert Gallatin, but was generally defended on the ground that it was a well-known practice with older governments, and that there was no other way of getting the money imperatively required.

These loans, obtained from time to time, were of three kinds: First, those made in anticipation of taxes to meet current expenditures; the last of which was made in 1795. Second, the sinking fund commissioners were authorized to borrow money, not exceeding $1,000,000 annually, in anticipation of the revenues, to pay interest. Each loan of this kind was to be reimbursed within one year after it was made. Third, loans were also founded on a pledge of the revenue to meet the exigencies of a specific case rather than for a general purpose. The first loan of this kind was to cover the expense of an Indian war. Of

SILVER QUARTER-DOLLAR OF 1796.

other subsequent loans, one was to provide money to ransom American sailors held in slavery by the Algerines. One still later was to equip and maintain the ships which carried on the war which the United States, first of all civilized powers, waged against the Barbary States for the protection of its commerce and citizens, rather than to pay tribute.

Between the years 1796 and 1802 the United States disposed of its stock in the bank at a net profit of $1,137,-

152.29, equal to fifty-seven per cent on the original investment. In August, 1791, we are told, United States Bank scrip sold for 195, in consequence of the mania for speculation. In September of the same year, it fell to 110, but rallied, almost at once, to 145. The last sales of its stock on Government account, in 1802, were made at 145. It was a successful and prosperous enterprise from first to last.

But, unfortunately for the bank, during the entire term of its existence it was looked upon and dealt with by a large majority of business men, and by men in public life with scarcely an exception, as a political rather than a business undertaking. Its projector, Hamilton, in 1791 urged its creation "as a powerful political engine." Political opposition continued from the beginning to the end of its career. When Jefferson became President he desired Albert Gallatin, then Secretary of the Treasury, to make a judicious distribution of his favors among all the banks, since the stock of the United States Bank was held largely by foreigners, and, "were the Bank of the United States to swallow up the others, and monopolize the whole banking business of the United States—which the demands we furnish them with tend shortly to favor—we might, on a misunderstanding with a foreign power, be immensely embarrassed by any disaffection in that bank." When the territory of Louisiana was purchased in 1805, Gallatin was desirous of establishing a branch bank at New Orleans. He considered the step of the highest importance. But the President vehemently opposed every extension of the bank. He wrote to Gallatin: "This institution is one of the most deadly hostility existing against the principles and form of our Constitution. What an obstruction could not this Bank of the United States, with all its branch banks, be in time of

war!" But Gallatin, being brought into more intimate relations with the bank, did not share the fears which Mr. Jefferson expressed, and the branch was established at New Orleans. While the bank existed the funds of the Government were deposited with it to the credit of the United States Treasurer. They were considered in the Treasury from the time of depositing them, and were subject to the Treasurer's control. The Government ceased to be a stockholder in 1802, and only once applied for a loan after 1805. The revenues of the Government had grown more ample, its wants were not so pressing, and loans were unnecessary. With the great majority in Congress the bank was endured only as a convenience for obtaining such loans. Yet the other advantages derived by the Government from the bank were neither few nor unimportant. As stated by Gallatin in a communication to Congress recommending a renewal of the charter, these advantages were, first, with respect to keeping the public money; another concerned its transmission from point to point, both at home and abroad; a third, and the greatest, related to the collection of the revenue. The punctuality of payments introduced by the banking system, and the facilities which it afforded importers indebted for revenue bonds, had enabled the Government to collect with greater facility and fewer losses the revenues derived from the imports than it could have done had no such bank existed. One chief complaint was that the bank and its branches, and particularly the branch in New York, were more inclined to grant loans to the members of one political party than to others. Whether this charge contained any truth or not, the complaint ceased to be heard after the creation of the Manhattan Company in 1799.

The bank was required to make weekly reports to the Secretary of the Treasury, but the following, for January 24, 1811, is one of the only two balanced statements found of record:

RESOURCES.

Loans and discounts,	$14,578,294
United States six per cent stock,	2,750,000
Other United States indebtedness,	57,046
Due from other banks,	894,145
Real estate,	500,653
Notes of other banks on hand,	393,341
Specie,	5,009,567
Total,	$24,183,046

LIABILITIES.

Capital stock,	$10,000,000
Undivided surplus,	509,678
Circulating notes outstanding,	5,037,125
Individual deposits,	5,904,423
United States deposits,	1,929,999
Due to other banks,	634,348
Unpaid drafts outstanding,	171,743
Total,	$24,183,046

In 1808 the bank petitioned for a renewal of its charter which would expire three years later. This application was favored by Gallatin, Secretary of the Treasury, and by Crawford and Pickering in the Senate, and opposed by Mr. Clay. The trouble with France and England then impending made war probable in the early future with one or both of these powers. The State banks expected to profit from the disturbances which would accompany open war and contributed largely to prevent any consideration of the bank's application until 1810, when a decision could no longer be delayed. The necessity of the bank was warmly urged by the Treasury department. The debate

in both branches of Congress was long, able and bitter. The old question of its constitutionality was discussed at great length, and its opponents denied that the institution was at all necessary to aid the Government in discharging its functions, insisting that it was evident, from the rapid multiplying of State banks, that there was a redundancy of capital. It was asserted that in case the bank should not be rechartered that the quantity of specie in the country would be reduced by the exportation of the large amount of its capital which belonged to foreigners. The bill was defeated in the Senate by the casting vote of the Vice-President, George Clinton, on February 20, 1811, and subsequently failed in the House by a minority of one vote. The bank was now obliged to wind up its affairs, which was done with very little disturbance to the business interests of the country. Within eighteen months from March 4, 1811, the stockholders had received 88 per cent upon their stock. On finally closing its business, the assets yielded to the stockholders an excess of 8½ per cent above the par value of the stock. Before going into liquidation, the bank made an unsuccessful application to the Legislature of Pennsylvania for a charter for a State bank with a capital of $5,000,000.

During the war of 1812-15 the National Government, which was embarrassed by the want of means, had received very considerable loans and other timely service from the State banks. Owing largely to such advances, the State banks, with the exception of those of New England, were, in August and September, 1814, driven to a suspension of specie payments. Toward the end of 1814 the finances of the Government were again in seemingly inextricable confusion. Alexander J. Dallas became Secretary of the Treasury on October 6, 1814, and, within a

fortnight thereafter, made to Congress a report of extraordinary ability and lucidity upon the condition of affairs. In this communication he strongly recommended the re-establishment of a national bank, as the remedy required to bring the finances once more into order. The State banks again were opposed to its creation. With them were the speculators in exchange, whose influence was very considerable, and all whose interest were served by a continuation of the suspension of specie payments. Various plans were brought forward in Congress which resulted in nothing, until, on January 20, 1815, a bill was passed. This was vetoed by President Madison, not for lack of constitutionality, as he considered that point already settled by the courts, but on the ground that it would not accomplish the objects rendered necessary by the state of the revenue and the condition of the country. On April 3, 1816, however, a bill for a Bank of the United States, which had previously passed the House of Representatives, was adopted by the Senate, and, receiving the signature of the President, became a law on April 10, 1816.

The charter was limited to twenty years and the capital to $35,000,000, composed of 350,000 shares of $100 each; $7,000,000 was to be subscribed by the Government, payable in coin or in United States five per cent stocks at the option of the Government. Other subscriptions were payable one-fourth in coin and the remainder in coin or United States stocks. Five of its twenty-five directors were to be appointed by the President of the United States. The bank was to be made a public depository and was to aid the Government, free of charge therefor, in negotiating its loans. It was empowered to establish branches and to issue circulating notes

which were to be receivable in all payments to the United States. No other bank, outside of the District of Columbia, was to be established by Congress during the continuance of this charter, and, in consideration of the grants therein, the bank was to pay to the United States $1,500,000 in three installments. It was authorized to organize and commence business so soon as $8,400,000, exclusive of the subscription of the United States, was paid in. It was prohibited from lending on the account of the United States more than $500,000, or to any State more than $50,000, or to any foreign prince or power any sum whatever, without the sanction of law being previously obtained. It went into operation January 7, 1817, and it was through its agency that the other banks throughout the country were enabled and induced to resume specie payments. At that time bank-notes at Washington and Baltimore were twenty-two per cent below par; at Philadelphia from seventeen to eighteen per cent; and at New York and Charleston they were from seven to ten per cent. In the interior the depreciation was much greater. This was nearly the worst stage of the monetary trouble resulting from the then late war, and at the verge of that financial crisis which culminated in 1819-20. As soon as the bank opened the Secretary of the Treasury directed importers to lodge their bonds with it, the bank agreeing, greatly to the relief of the Treasury, to discount the notes given for duties, to secure which these bonds were deposited. Congress resolved on April 30, 1816, that all duties, taxes and debts payable to the United States after February 20, 1817, should be paid in the "legal currency" of the Government, or Treasury notes, or in notes of the Bank of the United States, or of other banks which paid their notes on demand "in the legal currency of the

United States." The State banks agreed to resume specie payments in July, 1817, but neither Mr. Crawford, Secretary of the Treasury, nor the United States Bank, had much faith that they would fulfill their agreement. Both the Government and the bank were desirous of hastening the return of specie payments, and the latter began negotiation to that end. One consideration moving the bank to do so was that, if it succeeded, the obligation which it had incurred of discounting all the notes of importers would be very much diminished, for if the State banks paid in specie their notes would be readily taken by the Government. On the other hand, if the State banks refused to make any arrangement for resuming specie payment, a large amount of valuable paper for discount purposes would go immediately to the National bank, and the State banks would thus lose many of their best customers. As the result of this community of interests a plan was devised for resuming on February 20, 1817. On that day the balances due to the Government in the several banks, which ever since the closing of the first Bank of the United States had kept its deposits with the State banks, were to be transferred to the Bank of the United States, retained by it until July 1, when they were to be paid, with the interest thereon. In liquidating the balances which might be due, the United States Bank agreed to credit the banks respectively with the amount of their checks on all banks which were party to the agreement. The payment of the balances which might accumulate against the banks, subsequently to the transfer of the balances previously mentioned, from the payment to them of Government dues in return for money previously borrowed, was not to be demanded by the Bank of the United States until it and

its branches had discounted for individuals, other than those having duties to pay, certain specified sums in the several principal cities of the country, provided the money should be called for within sixty days, by borrowers offering good security. If the whole amount so to be loaned should not be taken by individual customers then the residue was to be lent to the banks signing the agreement. This plan for restoring specie payments was wholly successful. They were resumed and maintained while the charter of the bank continued in force.

When the bank began business eighteen branches were established in different States. The notes of the bank, whether issued by the parent bank or by any of the branches, were everywhere received in payment of duties and taxes, and were redeemable in specie at any office of the bank. Another very important function which it performed was in equalizing the rates of domestic exchange. Through its agency funds could be transmitted from one part of the Union to another at an expense not exceeding one-half, and frequently less than one-fourth, that commonly charged by private dealers, not exposed to the competition of the bank.

From 1820 to 1835 the country was prosperous, the bank recovered from its embarrassments, and its stock rose steadily in value. Long before 1828 the bank had lived down all respectable opposition; and it was therefore a surprise to all parties when President Jackson, in his first message, in December, 1829, took ground against a renewal of its charter when it should expire in 1836. The agitation thus awakened grew in intensity, until it culminated on July 16, 1832, in the veto by President Jackson of a bill re-chartering the bank.

The interval of about six years between the com-

mencement of Jackson's warfare upon the bank and the expiration of its charter is memorable for the violence and acrimony of the dispute between the administration and its supporters on one hand, and the bank and its friends on the other, both in and out of Congress. The famous order for the removal of the Government deposits was issued in 1833 by Mr. Taney, who was made Secretary of the Treasury for this purpose, his predecessor, Mr. Duane, having declined to issue such an order. When Congress re-assembled in December, 1833, resolutions were adopted in both Houses; those of the Senate censuring the President and Secretary of the Treasury for usurpation of powers, while in the House it was declared that the bank ought not to be re-chartered, that the public deposits ought not to be restored to it, that the State banks should be continued as depositories, and that Congress should further regulate the subject by law. Among the early results which followed the removal of the deposits was the expansion of their issues by the State depositories, and the wild and general inflation of the currency by a multitude of other banks, old and new. The aggregate of circulating notes, exclusive of those of the Bank of the United States, increased from $61,000,000, in 1830, to $149,000,000, in 1837. In 1830 the currency of the country had been characterized by the finance committee of the Senate as being more sound and uniform than that possessed by any other country; and yet within seven years after this all the banks then in operation, including the great Bank of the United States, which had been re-chartered by the State of Pennsylvania, went into suspension. The bank, when denied a renewal of its charter by Congress, did not close up its affairs, but applied for, and obtained, a charter from the State of Pennsylvania,

February 18, 1836, thirteen days before the expiration of its charter from the National Government. This was substantially a renewal for thirty years of the old charter and under the old corporate name, but with a change as to the amount and terms of the bonus to be paid the State for such charter. Colonel Benton, a sincere if not unprejudiced opponent of the Bank of the United States, characterized the Pennsylvania charter as indicating, by every circumstance of its enactment, corruption and bribery in the members who passed it, and an attempt to bribe the whole people of that State through the bonus to be distributed among them. This bonus, had the bank remained solvent and in existence long enough, would not have fallen short of $5,000,000.

The history of the bank subsequent to the crisis of 1837 was a disastrous one. It suspended payments as frequently as other State banks, and finally succumbed to difficulties which prudent management would have enabled it to overcome. It made three several assignments in 1841, to secure various liabilities, the last and final assignment being on September 4, 1841. The $7,000,000 of stock held by the United States previous to the time at which the institution became a State bank was paid back in full, and the Government realized a very handsome profit upon its investment, as will appear by the following statement, taken from the report of the Comptroller of the Currency for 1876:

Bonus paid by the Bank of the United States, - - - - - -		$1,500,000.00
Dividends received from the bank, -		7,118,416.29
Proceeds of stock sold and moneys - received from the bank, - -		9,424,750.78
Total, - - - - - -		$18,043,167.07
Subscription of capital stock, paid in United States five per cent bonds,	$7,000,000.00	
Interest paid by the United States on same,	4,950,000.00	
		11,950,000.00
Profit on investment, - - - -		$6,093,167.07

Nicholas Biddle was president of the bank from January, 1823, to March, 1839. At the time of his resignation the shares were selling at 111, having in 1837 sold at 137; but in 1843, after the failure of the bank, the shares were quoted at one and seven-eighths per cent. The circulating notes of the bank, together with the deposits, were paid in full, principal and interest; but the whole capital of $28,000,000 was lost to the share-holders.

Chapter VIII.

STATE BANKS UNTIL 1816.

We have seen that at the time of the establishment of the first United States Bank three State banks existed: the Bank of North America, the Bank of Massachusetts, and the Bank of New York. The course of business to the beginning of the present century is sufficiently indicated in the accounts given of these institutions. They served quite as much to steady the business of the country as to extend it. They inculcated a promptness of payment and regularity in conducting all business affairs, to which merchants had generally theretofore been strangers. As business expanded merchants gradually adopted the habit of selling their goods on credit, and, requiring Spanish milled dollars for shipment to India and China and doubloons for the purchase of West Indian produce for Europe, they became more dependent on the banks for accommodations and facilities, and the number of these institutions multiplied with the growth of trade. The banks obtained specie from various sources, but while war lasted between Spain and Great Britain our countrymen were the carriers and commercial agents of Spain, and as nearly all the silver product of Mexico and South America passed through this channel, the banks of this country early accumulated a substantial and abundant fund of specie. From the peace of Amiens in 1801 the influx of silver abated, although still considerable. Gouge says: "The specie constantly *in transitu* from South America

through the United States to other parts of the world was so great in amount that a retention of the quarterly or semi-quarterly supply for only a month or two was sufficient to relieve the banks from the difficulties into which they were occasionally brought by extending their operations too far."

Banking on the whole was a very profitable business in those days. From 1792 to 1808 the Bank of Pennsylvania never divided less than eight per cent, and sometimes ten. In 1792 the Bank of North America divided fifteen per cent, the next year thirteen and one-half, and for the five succeeding years twelve per cent annually. Our commerce being exposed to frequent interruptions by belligerents, the necessity for borrowing was often so urgent as to make the banks masters of the situation, and money was not infrequently lent by them for two and three per cent a month. The business of banking was less openly conducted than at the present day. It was part of the policy of every bank to keep its transactions as carefully hidden as possible. It was long before people generally became sufficiently accustomed to these institutions either to appreciate or admit their utility. Except a branch of the United States Bank, which was set up in Norfolk in 1799, no bank existed in Virginia until 1804. Yet a subsequent writer in the Richmond *Enquirer* declared that until this branch appeared there no people enjoyed greater happiness. "The desk of every agriculturist in Virginia had some gold or silver to spare if he were a prudent, industrious man, or he had something like money to spare in the hands of his merchant, who, in the days of which I am speaking, acted as a banker to his prospering customers. Nor was any interest paid upon such moneys as might be deposited in the hands of the

merchant, because both planter and merchant considered themselves accommodated by the arrangement—the planter in having his money safely kept for him until he wanted to use it, and the merchant in having the use of the money until it was called for."

As for the need of banks to transmit funds from one place to another, he adds: "Nor was there the least inconvenience in transmitting money from one point to another through the merchants whose credit was then as good as the credit of the banks now, if not better. Banks have destroyed the credit and confidence which men had in one another."

The banks in the greater cities having comparatively large capitals, were conducted on principles which afforded greater safety to the public than the smaller institutions situated elsewhere, whose capital often to a considerable extent was fictitious, consisting partly in notes secured by stock and managed by persons "with whose skill, caution or integrity the public was very little acquainted." Yet these latter were the banks which had the most extensive circulation. In 1809 the three banks in Boston made the following return:

	Capital.	Circulation.	Specie.
Massachusetts, - - -	$ 800,000	$139,850	$105,670
Union, - - - - - -	1,200,000	279,431	132,242
Boston, - - - - - -	1,800,000	226,940	161,270
	$3,800,000	$646,221	$399,182

At the same time, five other banks in the State of Massachusetts made the following return:

	Capital.	Circulation.	Specie.
Lincoln and Kennebec, - -	$200,000	$242,847	$20,920
Northampton, - - - - -	75,000	122,363	19,377
Hallowell and Augusta, - -	200,000	166,123	23,664
Penobscot, - - - - - -	150,000	183,470	19,586
Berkshire, - - - - -	75,000	83,060	7,682
	$700,000	$797,863	$91,229

These figures forcibly illustrate the difference between the safe and cautious method of conducting a banking business observed in the cities and the erratic and irresponsible method of operating outside them.

After the Bank of Massachusetts the next bank chartered in that State was the Union Bank, organized in 1792, with a capital of $1,200,000, of which $400,000 was subscribed by the State. In 1795 the Nantucket and Merrimac Banks were established. Up to 1799 but one more bank was chartered in Massachusetts. In that year a law was enacted prohibiting the establishment of unincorporated associations. In 1803 an act requiring semi-annual returns to be made by the banks to the Governor and Council was passed, and in 1805 an amendment required these returns to be sworn to. In 1805 sixteen banks were in operation. From 1805 to 1811 but one new bank was chartered. Two more were chartered in 1811. In all the charters granted by Massachusetts after 1793, provision was made for a State subscription, and in 1812 the State held about $1,000,000 out of the $8,000,000 of stock of the banks of the State. Nearly all the banks were re-chartered in 1811. In 1812 the State first imposed a tax on bank capital. In 1813 the system of compelling the redemption at par in Boston of the notes of the eastern banks, by assorting and returning the notes to the place of issue, was inaugurated by the New England Bank organized that year. This was the beginning of what was afterward known as the Suffolk Bank system.

Up to June 11, 1812, the date of the declaration of war with Great Britain, nineteen banks were chartered by the Legislature of New York. Seven of these: the Bank of New York, Merchants', Mechanics', Union, and City

Bank of New York City, the New York State Bank of Albany, and the Bank of Utica, are now National banks, and the Manhattan Company and Bank of America are the leading State banks.

During the period from 1791 to 1812 political feeling was bitter, and obtaining the charters of the banks organized during this time was, in many cases, the occasion of much strife and intrigue. Governor Tompkins, afterward Vice-President of the United States, in the year 1813 prorogued the Legislature, assigning as one reason for his action the attempt to secure a bank charter through the use of corrupt means. These charters were in the nature of special privileges, granted to particular persons, and all others were specially restrained by law from participating in the business of banking. A restraining act was passed in 1804 to compel private banking institutions to wind up their business, leaving a clear field to chartered corporations. This act prohibited any person, under a penalty of $1,000, from subscribing to, or becoming a member of, any association for the purpose of receiving deposits, or from doing any business which incorporated banks, by their charters, were permitted to do.

The first institution in the State of Ohio in the nature of a bank was chartered under the name of the Miami Exporting Company, in 1803, immediately upon the admission of this State to the Union. It was chartered for forty years, with a nominal capital of $500,000, in shares of $100 each, payable five dollars in cash and the remainder in produce or merchandise. Although in form a trading company, it issued bills and redeemed them in notes of other banks. The first regular bank was chartered in 1808, and was located in Marietta, with a capital of $500,000. During the same year another bank was

established at Chillicothe, then capital of the State, with a capital of $100,000. From 1809 to 1816 four banks only were chartered in Ohio.

The first bank in the State of Illinois was established under its Territorial Government in 1813, at Shawneetown, and three years after was incorporated for a term of twenty years with a capital of $300,000. In 1835 its charter was extended to 1857 and its capital increased to $1,400,000 the additional capital being subscribed by the State.

The first serious explosion in the banking business in New England after the adoption of the Federal Constitution occurred in 1809. The notes of many banks outside Boston were at a varying discount, running as high as five per cent, and the merchants and retail dealers in that city on whom the burden of depreciation fell combined for their own protection. They appointed a committee and raised a fund for the purpose of sending home the bills of banks outside that city received in the course of their business and procuring their redemption and of bringing suits against banks neglecting or refusing payment. This step brought on a crisis. First, the Farmers' Exchange Bank — a large institution whose operations were among the most notable in the history of New England banking — suddenly failed, and "the shock upon the public was tremendous." The Berkshire Bank followed next. The discovery that banks could fail affected the credit of all, and in 1809 most of the country banks of New England having bills in circulation stopped payment. "It would probably be a moderate estimate to put the loss in New England by the bank failures of that period at $1,000.000."

When the charter of the first United States Bank expired its notes were withdrawn and the notes of State

banks were issued in reckless profusion to supply their place. During the year 1811 and the two succeeding years one hundred and twenty new banks commenced business in the United States. In Pennsylvania the Legislature passed an act authorizing the wholesale creation of new banks on the loosest principles, which, fortunately, was vetoed by the Governor. The new banks of these three years added nominally about $30,000,000 to the banking capital of the country. But the real capital of nearly all of these new concerns was almost purely nominal, as, when a new bank was organized, its stock subscribed, and the first installment paid, stock notes were taken for the residue, which notes were discounted to meet all subsequent calls. As soon as it became known that this practice was generally followed the credit of all banks of circulation, save those whose reputation had been firmly established, was quite swept away and the issues of all except a comparatively small number of well-known banks began to depreciate. This increase of banking circulation came on the eve of the war with Great Britain during which period exports almost ceased, and the coasting and foreign trade of the whole country was practically annihilated. As but a small portion of this manufactured capital could be used in legitimate mercantile enterprise, considerable sums were invested in Government loans. The demand for money in this direction as the war progressed became so great that bank-notes rapidly multiplied. In New England, however, the banks did not subscribe so freely, because of the unpopularity of the war in that section. The banks of the interior, as well as those of New York, Philadelphia and Baltimore, expanded their issues with inexcusable indiscretion, to call it by no harsher name. The

drain upon the country for specie for shipment to Europe was great, increasing, and perfectly well known. As is always the case this drain was felt first and with greatest stringency in those cities where the paper in circulation was most abundant and most discredited. At this time the laws of the New England States imposed a penalty of twenty-four per cent per annum on all banks suspending payment of their circulating notes. This regulation forced the weaker banks of that section to the wall, and assisted the stronger institutions in maintaining their notes in full credit after those of the banks of other sections had become greatly depreciated.

The capture of Washington in 1814 was followed by the failure of nearly all the banks of the middle and southern States. All had been drained of their specie. Those at Washington went first, ascribing their failure to the fact that they were plundered by the English invaders, though they had little for the enemy to take. Those at Baltimore gave way next. Then the six banks at Philadelphia suspended specie payments, and the next day those of New York followed the example. The New England banks, however, easily stood the pressure. Their issues of circulating paper were less, their individual strength was greater, they were better used to united action, and the local supply of specie was more abundant than in any other section of the Union. In the South and West the Bank of Nashville alone maintained specie payment of its paper until August 1815, "the sturdy honesty of whose directors," says Gouge, "amidst such general knavery, is no less praiseworthy than it is remarkable." The broken banks, though refusing to redeem their notes, professed their desire and ability to do so at an early day. At first business was not seriously inter-

rupted by their suspension, for gold and silver remained the standard of value. Bills of doubtful credit were compared with these and the ratio of their depreciation fixed by this sound standard. Bank bills became a merchantable commodity and were commonly bought and sold for coin; their rate of discount was tabulated and regularly announced in the newspapers; they were even sold at auction, the purchaser paying therefor in specie. Though the people and the Government were subjected to considerable loss and more inconvenience from the employment of this depreciated paper, creditors received their just dues and business calculations could be made with reasonable safety so long as the specie standard was adhered to. But the unfortunate action of the then Secretary of the Treasury in directing that the depreciated paper of the State banks should be received without discount in payment of loans, customs duties, and other taxes, changed this almost in a moment. The suspended banks increased their issues, their depreciated currency became the standard, coin disappeared or was bought and sold as merchandise at a premium varying in different cities with the ratio of debasement of local bank-notes, and the difficulties of the Government and the business community immensely multiplied.

From 1815 to the resumption of specie payments in 1817, the condition of affairs was such as to place a direct premium on rascality in banking. During these years, under the suspension of the specie payments, while they were in a bankrupt condition, the minor State banks made larger dividends than ever before. All responsibility for their issues had ceased; they grew rich at the expense of the holders of their notes. It is no wonder they opposed a return to specie payments.

We have seen, in connection with the account given of the formation of the Second Bank of the United States, the part played by that bank and by the United States Treasury in bringing about, in 1817, a return to specie payments.

Chapter IX.

THE STATE BANKS FROM 1816 TO 1863.

When the Second United States Bank was created the various State banks continued to do business as before. The Government no longer kept its deposits with them, but it did not interfere with their affairs. Of course, the National bank with its vast resources overshadowed them; still they flourished and multiplied in number. The first noteworthy advance in the system of State banking occurred in New England in 1824. In February of that year an attempt was made to induce the banks of Boston to give the bills of country banks the same credit as the banks in the city gave to the notes of each other. If they were thus taken it would be necessary to send them home to be redeemed unless the country banks should choose to make an arrangement for their redemption in Boston. It was finally agreed among the banks (though not all of them came into the scheme), that each should receive at par in all payments from its customers the bills of all the banks in good credit in the New England States, thus making country money equal in value to Boston money, and saving to the customers of the city banks the tax previously imposed on them in the way of premium for Boston money. The bills thus received were not to be kept for any considerable length of time, nor to be paid out to supply the circulation of the city. Nor was it necessary for each bank to employ messengers to carry the bills home, for an agreement was made that the Suffolk

Bank should do this business or procure their redemption in such manner as it saw fit. The country bills received by the other banks in Boston which were parties to the arrangement were paid over daily to the Suffolk Bank, and each received in lieu thereof Boston money at par. The bills thus received by the Suffolk Bank absorbed a considerable portion of its capital. To indemnify it for exchanging or redeeming the bills of the country banks, the allied banks each lent to the Suffolk Bank, without interest, a sum of money which was held to be equivalent to the service performed. This plan of redemption was known as the Suffolk Bank system, and was of obvious benefit to the public in facilitating the transaction of business and in protecting a portion of the community from a constant tax and almost every one from occasional heavy losses. The general tendency of the arrangement was to give to each country bank the benefit of the principal local circulation of its own neighborhood, and to direct its bills homeward when they had wandered away. The excellence of the system is shown by the fact that it continued for so many years, and became so widely accepted throughout New England. It operated as a check to excessive issues of paper by any of the banks included in the association, as they could not make any large addition to the quantity of their notes in circulation without its being at once discovered by the Suffolk Bank. Discovery would of course be followed by a demand for increased security as a consideration for continuing the redemption of the bills of any bank which seemed to be inclined to resort to such a practice. Although there was at first some opposition to the Suffolk Bank system it came into nearly universal use in New England as early as 1825 and continued in successful operation down to the adoption of the National banking system.

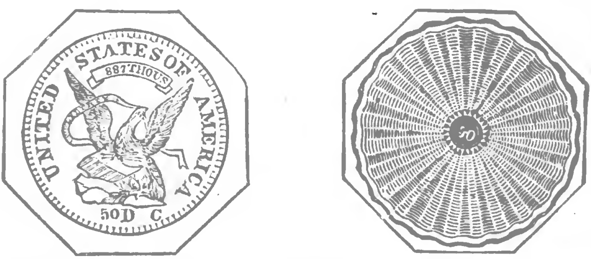
The first comprehensive State law regulating banking was passed in Massachusetts in 1829. In 1837 there had been organized in that State one hundred and thirty-four chartered banks, of which thirty-two failed in the great panic of that year, with a loss of about thirty per cent of their entire indebtedness. From 1793 to 1836 but ten banks had failed in Massachusetts. As a result of the revulsion of 1837 that State adopted a system of official examinations which was carefully and judiciously adhered to, and which was equally

TWENTY DOLLAR PIECE.

helpful in maintaining the soundness and solvency of the banks and public faith and confidence in their management. A free-banking law was adopted in 1851, much like that which grew up in the State of New York, but only seven banks were organized under it, as the specially chartered banks then in existence were possessed of numerous and valuable privileges not conceded to those formed under the provisions of the general law. In October, 1865, all but one of the State banks of Massachusetts, save four which wound up and went out of business, had re-organized as National banks.

In New York the restraining act of 1804, aimed at the extinction of unincorporated banks, was followed in 1818 by even more stringent legislation. This enacted

that no person, association of persons or body corporate, except such bodies corporate as were expressly authorized by law, should keep any office for the purpose of receiving deposits, or discounting notes or bills, or for issuing any evidence of debt to be loaned or put in circulation as money. Although many of the restrictive features of this law were salutary and are to-day part of the law of every State, its effect, as a whole, was in the direction of a monopoly of all forms of brokerage by the specially-chartered banks. This statute remained in force until 1837, only one year before the adoption of the free-banking act.



CALIFORNIAN FIFTY-DOLLAR PIECE ISSUED IN 1851 BY THE ASSAY OFFICE IN SAN FRANCISCO.

The safety-fund system originated in New York and was authorized, on the recommendation of Governor Van Buren, by the Act of April 2, 1829. The distinctive feature of this system was the requirement that each bank operated under it should make an annual contribution of one-half of one per cent of its capital to a common fund to be held by the Treasurer of the State, such payments to be continued until each bank had thus deposited three per cent of its capital. This fund was to be used to redeem the circulating notes and to pay the other debts of any bank, joining the association, which might become insol-

vent. In case the fund should at any time become impaired by payments made from it, the banks were required to again make their annual contributions until each had once more on deposit three per cent of its capital stock. In practice the amount required to be deposited to the credit of the fund was found to be too small to afford any substantial protection or relief. When, during the panic of 1837, eleven banks belonging to the system failed, the whole fund amounted to but little more than five per cent of their debts for the payment of which it was pledged. The loss in this one instance to depositors and bill-holders of these banks was upward of $2,500,000, beside the total loss of their capital stock amounting to some $3,000,000 more. This deficiency of the safety fund was made good by an issue by the State of its six per cent bonds, this advance to be reimbursed by future payments by the banks into this fund. But in the end the State was a considerable loser by this transaction as the whole sum contributed by safety-fund banks to that fund down to 1848, when the scheme was finally abandoned, was but about $1,876,000, little more than seventy-five per cent the debts of the eleven insolvent institutions. In 1842 the safety-fund law was amended so that the common fund became responsible only for the payment of the circulating notes of banks failing thereafter; it being argued that banks which enjoyed the exclusive privilege of furnishing a paper currency should be required to contribute something to a common fund to make that currency safe and stable; that a contribution of a moderate sum for this purpose was only reasonable and proper, but that there was neither propriety nor justice in requiring all the banks to contribute to a general fund for the benefit of the depositors or other general creditors of individual

banks; and as there was no exclusive privilege to receive deposits or contract general debts there was no reason why the special fund should be applied to their liquidation. The original safety-fund system also operated as a bar to the formation of new banks, which led to many abuses and the creation of much cumbersome machinery for obtaining new charters. This was one strong incentive to the adoption by the State of New York of the free-banking system, which was created by the Act of April 13, 1838. By this system all restrictions of banking privileges to a favored class were abolished. Any number of persons were allowed to form banking associations, subject only to the common restrictions and penalties imposed by the general law. As originally enacted the law provided for the issue of circulating notes to these banks by the State, upon the deposit of stocks of the State of New York and of the United States at par, or of other States at their market price in amount sufficient to make them equal to a five per cent stock at par, or of bonds secured by mortgages on improved and productive real estate worth, exclusive of the buildings thereon, double the amount secured by the mortgage, and bearing interest at not less than six per cent. The issue of notes to each bank was to be equal to the amount of the deposit. From 1838 to 1843 twenty-nine of the banks organized on this plan failed, and a sale of the securities which they had deposited realized a sum sufficient to pay, averaging the whole, seventy-four per cent only of their outstanding circulating notes. Some paid nearly in full, others much less than the average. Losses in every instance occurred only in the case of those banks which had deposited the stocks of States other than New York. The Act was therefore amended so as to exclude the stocks of all States

except New York, and these were required to be kept equal in amount, at market value, to a five per cent stock at par. In 1848 an amendment was adopted requiring all stocks deposited to bear six per cent interest and all bonds seven per cent, the mortgages securing the latter to be for but two-fifths of the value of the lands covered. In 1849 still another amendatory act required one-half the securities in all cases to consist of New York State stock, and provided that all other securities should be, or be made equal to, six per cent stock, to be received at not above par and at not more than their market value. The general policy of the New York free-banking system furnished the groundwork for the plan on which the present National banking law was built up. In 1840 the State of New York required its banks to redeem their notes at an agency to be established either in New

SILVER THREE-CENT PIECE, 1853.

York City, Albany, or Troy, as well as at the home office. The redemption at the agency was at a discount of one-half of one per cent, subsequently reduced to one-fourth of one per cent. This discount was, in practice, divided between the bank whose bills were redeemed and the redemption agency. Any bank neglecting to provide for such redemption of its notes was to be forced to wind up its business. The Constitution of this State, adopted in 1846, prohibited the Legislature from granting any further special charters to banking corporations; and provided for the formation of banking institutions under a general law. It also provided that after

1850 the stockholders in all banks issuing circulating notes should be responsible for all the debts of the bank, of every kind, in an amount equal to their stock in such bank. In case of the bank's insolvency bill-holders were preferred to all other creditors.

In Ohio but five banks were authorized before 1816. In that year six new banks were chartered by an omnibus act which required each new bank, as well as such of the old ones as should apply for an extension of charter, to set apart annually for the use of the State, such a part of its earnings as would, at the expiration of the term for which its charter was granted, amount to one twenty-fifth of its capital. By a law passed in 1825 this provision was so modified as to require each bank to pay to the State two per cent on all dividends theretofore paid and four per cent upon all such as should be thereafter declared. From 1816 to 1834 thirteen new banks were authorized. Branches of the Bank of the United States having been established at Chillicothe and Cincinnati, the Legislature, proceeding upon the theory which then obtained in Ohio and other States that the State should participate in the profits of the banking corporations which it created, levied a lump sum or tax of $50,000 on each of these branches provided they should remain in business later than September 1, 1819. The bank contested this tax, however, and in the Supreme Court of the United States obtained a decision in its favor and denying the right of the States to tax its branches. In 1845 the safety-fund system was applied to a State bank then authorized. A sum equal to ten per cent of the circulating notes of the bank was to be paid to a board of control, to be by it invested in Ohio State or United States stocks, or in bonds secured by first mortgages on real estate of double the value of the

security, to be deposited in the State Treasury. Sixty-three branches of this State bank were created, each of which was treated as an independent institution so far as depositing security and receiving the interest thereon was concerned. In case of the failure of any branch bank its own funds and securities, not deposited in the safety fund, were to be applied to the redemption of its circulation before the safety fund could be called on, thus giving bill-holders a first lien on all its assets. The safety-fund act was also applied to a portion of the banks previously existing, and the same statute authorized an independent banking system which provided for a deposit with the State Treasurer of United States or Ohio State stocks, to the full amount of the circulating notes to secure their payment. A free-banking law, modeled on that of New York, was passed in 1851, but the new Constitution, adopted later in the same year, materially restricted its operation. The revenue laws of Ohio, at this period, discriminated strongly against the banks, subjecting them to double and three-fold taxation, as compared with other forms of property and investment. In 1856 another State bank was created by law, largely on the lines of that of 1845, but with a clause attaching a personal liability to the ownership of the stock. Most of the banks organized under the law of 1851 were taxed into liquidation, and in 1856 upward of sixty banks in this State were in bankruptcy, more or less complete. In 1863 there were in Ohio fifty-six banks doing business under its laws, viz.: Seven independent banks with an aggregate capital of $350,000; three free banks with $1,270,000; and the State Bank of Ohio with thirty-six branches and an aggregate capital of $4,054,000 and $7,246,000 circulation. The total capital of all the banks of the State, when the

National banking law of 1863 went into effect, was $5,674,-000; circulation, $9,057,837; specie, $3,023,285.

Early banks in Indiana were few. But two were chartered previous to 1820. In 1834 the State Bank of Indiana was chartered with ten branches, each liable for the debts of all the others. Each share was to pay the State an annual tax of twelve and one-half cents, and was liable to all taxes assessed upon other forms of capital, with the proviso that in no event should taxes on these shares exceed one per cent in the aggregate. The cash capital of this bank was largely borrowed at the East upon the credit of the State, which not only took $1,000,000

THREE-DOLLAR GOLD COIN, 1854.

of its stock directly, but also loaned its credit to individual stockholders to the extent of one-half their subscriptions, taking individual bonds secured upon real estate at one-half its value, for the re-payment of the sums so advanced. This bank paid dividends averaging twelve to fourteen per cent annually, and weathered the panic of 1837 without loss of capital or prestige. It went into liquidation in 1854, on the expiration of its charter, and returned to its stockholders nearly double the par value of their stock. The State of Indiana received about $3,000,000 from its investment of $1,000,000 in this institution, as well as payment in full of all sums for which it became surety. In 1851 Indiana adopted a new Constitution which prohibited the further creation of banking corporations except under

a general law. The general banking act, adopted in 1852 in pursuance of this constitutional provision, required the deposit of stocks of that State or of the United States as security for the circulation of all banks formed thereafter. A new State bank chartered in Indiana in 1854, on the expiration of the charter of the first State bank, had a capital of $6,000,000, was excellently managed and passed through the panic of 1857 without suspending specie payments.

In Illinois a State bank was chartered in 1821 with a capital of $500,000. It was owned by the State. It had no real capital and was little, if any, better than the schemes for the emission of bills of credit to be lent to all comers, which flourished in the colonies during the last century. Of its notes $300,000 were issued and loaned to citizens of the State, not more than $1,000 to one person, upon real estate mortgage, for one year, at six per cent interest. These notes were made receivable for taxes and for all debts due the State and the bank. They rapidly depreciated and after passing for a time at twenty-five cents on the dollar, became wholly discredited and ceased to circulate. In 1835 a new State bank was incorporated with a capital of $500,000, afterward increased to $2,000,000, which was also owned by the State and managed and controlled by the Legislature. It suspended specie payment during the panic of 1837-38 and never recovered sufficiently to resume. In 1843 this bank and the old Shawneetown bank in which the State had a controlling interest, were wound up under a law passed that year, which practically confiscated the property of private stockholders, depositors and bill-holders. The State took possession of its bonds amounting upward of $3,000,000, which these banks held as security for their bill-holders and

depositors, and caused the same to be burned in the old State House Square at Springfield, in the presence of the Legislature. In 1843 a free-banking law was adopted, modeled on the provisions of the earliest free-banking acts of New York and Indiana. The securities deposited by the free banks in Illinois were almost wholly those of extreme southern and south-western States, the values of which fluctuated so widely and continually as to deprive the bills secured thereby of any settled value. Under the Constitution of 1870 State banking ceased in Illinois so far as the creation of new banks was concerned.

In nearly all of the southern and western States banks were incorporated, during the period under consideration, in which the State had an interest, partial or exclusive. Free-banking systems were also generally adopted, after 1850, with provisions for the security and redemption of circulating notes, purely formal and useless in some and effective and substantial in others. The result in all the other States was like that in one or another of those whose experience is hereinbefore epitomized. Indiana and Louisiana managed their banks with increasing and conspicuous prudence and success. To award justly the palm for pre-eminent badness would be a task as difficult as unprofitable. We have noticed the case of those States which, by constitutional limitation, forbade the granting of special banking charters. Whereever obtainable these special charters were in great demand because of the laxness which universally characterized their provisions. The abuse of any State system which did not provide for the redemption at the State capital or other business center, of the bills of every bank authorized to do business within its limits, was easy and inevitable. A common plan was to obtain in one

State a charter for a bank to be located at some obscure and inaccessible point where no occasion existed for any legitimate banking facilities, and to procure, on the deposit of doubtful and inadequate security, an issue of bank bills which were at once taken to a distant State to be put in circulation among a people having no means of procuring redemption. Charters issued in Georgia were sold to be used for putting a flood of worthless bank-notes in circulation in Illinois. Banks ostensibly located in New Jersey had all their business operations conducted in other States. The notes of all banks except those located in large commercial cities, were always at a discount. At New York a discount of one-eighth of one per cent was charged on the bills of New England banks redeemable at the Suffolk bank. The common rate of discount on the bills of banks which redeemed their currency only over their own counters was from one to five per cent, and often greatly exceeded that rate. Five per cent on the entire circulation of all the banks in the United States is estimated to have been lost each year to the bill-holders by discount and brokerage. Losses by insolvency were much greater. The losses and vexation occasioned by the circulation of counterfeits and notes of broken banks was something incredible to one accustomed only to the currency of to-day.

In 1837 a general suspension of specie payments took place, occasioned by the revulsion and panic of that year. A partial resumption in 1838 was followed by a second suspension in 1839, which was especially disastrous in the West and South. The reckless management of the Bank of the United States, then operating under a charter from the State of Pennsylvania, was the principal occasion of this second crash. Whatever the previous

merit or demerit of that bank may have been, its course at this time was such as to justify the most severe condemnation, as its policy was directed to forcing a run on, and suspension of, the New York banks in order to bring on another complete suspension. A general and final resumption of specie payments was not effected until 1842. In 1857 another panic caused another general suspension of payment by the banks. This revulsion, like so many others in this country, was occasioned by expansion and overtrading. The first actual shock was the failure of the Ohio Life and Trust Company on August 24, 1857. This concern had borrowed largely, on call, in New York and had loaned its funds improvidently. Its liabilities were about $7,000,000, and its credit had been so high that its failure shook confidence in other institutions. A desire to test the foundations of credit was followed by a general collapse. It had been the rule among banks to keep on hand specie to the amount of one-third of outstanding bills. During the period of activity which preceded 1857 this wholesome rule had been greatly relaxed and few banks in the interior possessed a specie reserve exceeding one-twelfth the total of their circulating notes. The loss of the steamer *Central America* with a million in gold helped to create a momentary stringency in New York. Collections on interior points began to drag. Failures of banks, brokers and produce dealers became numerous, and on September 12 and 13 the banks at nearly all points south and west of New York suspended payment. On October 13, 1857, the New York banks suspended and the New England and Boston banks followed a few days later.

The panic forced a speedy liquidation of all inflated schemes and enterprises, and, as the country was at the

bottom, in a genuinely prosperous condition, the recovery was prompt and easy. Imports stopped almost completely. Gold flowed in from Europe. The New Orleans banks, nine in number, had suffered least of all. But four of these suspended, and they for a few days only. The New York banks resumed in a body on December 12, and all others followed gradually and informally.

In the years preceding 1860 the growth of bank capital had been rapid. At the East it was for the most part actual capital to be loaned or advanced on *bona fide* business paper, or against commodities in transit. At the West, however, the increase represented credits, and took the form of circulation rather than loans. The basis of this circulation was Western and Southern stocks and it was kept afloat as long as exchanges favored those sections. Political events affected the current of exchange in 1860. In that year two hundred and twenty-two banks in Indiana, Illinois and Wisconsin had on deposit, to secure circulation, about $15,000,000 of the stocks of States which passed ordinances of secession. This action of these States caused an average depreciation exceeding sixty per cent of the stock so deposited. The circulation of each bank depreciated in direct ratio to that of the bonds pledged for its security. Ruinous confusion accompanied the depreciation of this "stump-tail money." Most of the Western State banks were driven into liquidation. In Illinois ninety-four failed, in Wisconsin more than one hundred, and proportionate numbers in other States. The circulation of three Illinois banks which failed, was redeemed at par; that of fifty-seven others at from fifty to eighty cents on the dollar; and that of those remaining at a much smaller rate. It is undoubtedly true that a large portion of this decline in the value

of stocks pledged to secure circulating notes was due to the forced sale of these securities. It was the duty of the State officers to sell the stocks at once, and to redeem the bills of the bank as far as the proceeds would extend when paid *pro rata*. It was the vice of the old free-banking system that it required that securities should be sold at the moment the market was least able to absorb them. Hence, unless the margin was very large, the circulation was never paid in full.

CHAPTER X.

THE SUSPENSION OF SPECIE PAYMENTS IN 1861.

THE condition of the country at the opening of the year 1861 was unusually prosperous from a material standpoint. The crops of 1860 had been very large both in the North and the South. The cloud on the commercial horizon caused by the position taken by the Southern States was particularly threatening after the election of Lincoln, and a general contraction of business occurred. Mr. Lincoln selected Salmon P. Chase, of Ohio, for his Secretary of the Treasury, and, the Southern members of Congress having left Washington, measures were immediately taken to replenish the National treasury, — at that time actually bankrupt, — and to prepare for an impending storm which every one believed was sure to come but which was thought likely to be of short duration.

Secretary Chase found authority vested in him by previous Congressional action to raise money by loans, and on March 22, 1861, he advertised proposals for a loan of $8,000,000. Most of the loan contracted by General Dix, predecessor to Mr. Chase, had been absorbed by banks for currency and by savings banks and individuals for investment, and the question before Secretary Chase was as to the most advisable form in which the loan should be negotiated, whether by long-time bonds or six per cent treasury notes. Public opinion was divided as to the merits of the question, and the Secretary divided

the loan nearly equally, giving bonds for $3,099,000 and for the remainder he issued treasury-notes, payable to the order of the persons who received them, bearing six per cent interest payable semi-annually, convertible into bonds, and receivable for public dues. They were not legal tender between individuals, and did not form a forced currency.

On May 11 Secretary Chase advertised proposals for the unnegotiated portion of the loan of $25,000,000 authorized February 8, 1861, amounting to $8,994,000. Fort Sumter had been attacked and credit was lower than before, but bonds were sold amounting to $7,310,000 at a rate ranging from eighty-five to ninety-three per cent. The remainder of the loan was taken in treasury-notes at par. A little later he issued $12,584,550 in treasury-notes to offerers and public creditors.

The first report of Secretary Chase to Congress estimated the Government's financial requirements for the year to be $318,519,581.87, and suggested that $240,-000,000 should be borrowed, and $80,000,000 raised by taxation. He also suggested raising the duty on sugar and placing tea and coffee, theretofore free, upon the dutiable list. Of the last-mentioned sum he believed $20,000,000 could be raised by direct taxation. He recommended the opening of subscriptions for a National loan of $100,000,000 to be issued in treasury-notes bearing 7.3 interest and redeemable three years from date. Should sufficient money not be received by that mode he suggested the issue of $100,000,000 in bonds, bearing seven per cent interest, to run thirty years. He also asked for authority to issue treasury-notes amounting to $50,000,000 in $10, $20, and $25 denominations, bearing 3.65 per cent interest. The necessary bills were passed

immediately and the Secretary was given the desired authority. On August 5 a bill was passed authorizing the issue of twenty-year bonds at six per cent, and the issue of five-dollar treasury-notes. Revenue bills were also passed by which it was hoped sufficient money would be brought into the treasury, in addition to the receipts from loans, to carry the Government through the danger.

In November, 1860, the banks of Boston, New York and Philadelphia had recognized coming danger and had banded together to enable them better to sustain the Government should it become necessary. The coin possessed by them was placed in a common fund. To this association of banks Secretary Chase applied for money. They agreed to take an immediate issue of treasury-notes amounting to $50,000,000, having three years to run at 7.30 per cent, with the privilege of taking fifty millions more October 15 and fifty millions more December 15, should the latter sum not be subscribed by the people. The Secretary was to negotiate no other evidences of debt except those payable on demand, and the three million Oregon war loan. Secretary Chase then issued for urgent exigencies $26,896,784 in six per cent treasury-notes.

"To insure the success of the bank loan, the expedient of issuing clearing house certificates, and of appropriating and averaging all the coin in the various banks as a common fund, was adopted." The capital of the associated banks was $120,000,000, and they possessed $63,165,039 in coin to meet $142,381,956 of liabilities. The banks earnestly urged Secretary Chase to suspend the operations of the sub-treasury Act and draw his checks in disbursing money, thus making of his checks a circulating medium, and leaving the gold in possession

of the banks, where it was important that it should remain. He steadily refused to do this, and the banks unfortunately failed to force him to adopt that course.

Secretary Chase began early in August to circulate demand notes, redeemable in coin, of which he had none and for which he was dependent on the banks. Upon protestation by the banks against this currency inflation he assented to their wishes, and they began to pay the Government gold which, by reason of the rapid payments by the Government, reached them again in about one week.

The subscriptions by the people to this National loan amounted to $24,678,866, whereupon banks agreed to take the whole issue of notes to be sold by them to the people. On November 16, the third installment of $50,000,000 in six per cent bonds was taken by the banks. In November the Secretary, disregarding the wishes of the banks, again issued demand-notes, and in order to sustain the value of specie, the banks were obliged to accept them only as special deposits. The holders demanded specie for them, with the result that the gold reserves fell to such an extent that on December 30, 1861, the banks suspended specie payment in order to save the gold which they still had. The Government could but simply follow the course of the associated banks, and all the banks in the country also suspended at the same time. This suspension seems to have been entirely unnecessary, as it could have been avoided had the Secretary not persisted in the circulation of demand-notes against the wishes and advice of the banks, and failing to adopt the forms of business which permitted the payment of indebtedness by checks, drafts, etc., without disturbing the specie reserve.

CHAPTER XI.

THE ISSUE OF LEGAL TENDER NOTES.

IN his report for December, 1861, Secretary Chase had recommended the establishment of a National banking system, saying that its advantages would be: "A currency of uniform security and value, protection from losses in discount and exchanges, increased facilities to the Government in obtaining loans, a diminution in the rate of interest, or a participation by the people in the profits of circulation, an avoidance of the perils of a great money monopoly, and a distribution of the bonds of the nation to the leading monetary associations of the country, thus identifying their interests with those of the Government."

In accordance with the recommendations of the Secretary a sub-committee of the Committee on Ways and Means had been engaged for some time in preparing a bill to create a National bank system, but on the ground that it could not be made available soon enough to meet the pressing needs of the Government, a bill was prepared by Elbridge Gerry Spaulding, of Buffalo, N. Y., a member of the committee, and introduced into the House of Representatives two days after the banks suspended specie payments, to relieve the necessities of the Treasury Department at once. This bill authorized the Secretary "to issue $50,000,000 of treasury-notes on the faith of the United States, payable on demand, without specifying any place of payment, and of such denominations as he may deem expedient, not less than five dollars each, which

shall be receivable for all debts and demands due to the United States, and for all salaries, dues, debts and demands owing by the United States to individuals, corporations and associations within the United States; and such notes shall also be a legal tender in payment of all debts, public or private, within the United States, and shall be exchanged at any time at their par value the same as coin, at the Treasury of the United States and the offices of Assistant Treasurers in New York, Boston, Philadelphia, St. Louis, and Cincinnati, for any of the coupon or registered bonds which the Secretary of the Treasury is now, or may hereafter be, authorized to issue; and such treasury-notes may be re-issued from time to time as the exigencies of the public service may require."

The fact that the bill was before the House called delegates from the associated banks to Washington. They submitted a plan for raising money to carry on the war which was not approved. They then approved the Secretary's scheme for raising money and creating the system of National banks, and submitted a plan* which provided that the banks should receive and pay United States notes freely and sustain the public credit; the Secretary would pay daily sums of $1,500,000 in such notes, and within two weeks pay $20,000,000 in seven-thirty bonds; the issue of demand-notes not to be increased beyond the $50,000,000 authorized in July, 1861; Congress to extend the loan acts to enable the Secretary to issue notes payable in one year bearing 3.65 per cent interest and convertible into seven thirty-three-year bonds, in exchange for demand-notes; or enable the Secretary to borrow under existing provisions $300,000,000. The delegates recommended the passage of the National currency bank bill, and believed that this action and liquidation would

* Bolle's "Financial History of the United States," vol. 3, p. 48.

make the demand-notes a legal tender. This plan was not approved by the Legislative committees.

The legal tender bill passed the House providing for the issue of notes to $150,000,000, retiring the $50,000,000 authorized in July, 1861, and authorizing the issue of $500,000,000 in coupon or registered bonds to run for twenty years at six per cent. The bill was reported to the Senate February 10, 1862, but the treasury being nearly empty a temporary relief bill was passed by both Houses authorizing the issue of $10,000,000 in treasury-notes payable on demand.

As the Senate made some amendments to the legal-tender bill, it went back to the House, which accepted the most important of them; these provided that the notes should be legal tender for every demand against the United States except for interest on bonds and notes, which should be paid in coin; that the bonds should be redeemable in five years and payable in twenty years; that the bonds might be sold by the Secretary at the market price for coin or treasury-notes; that deposits could be made with sub-treasurers, and that all duties and the proceeds from the sale of public lands should be set apart to pay coin interest on the national debt, and one per cent for a sinking fund. Thus the bill became a law on February 25, 1862, and the most important financial measure of modern times was created by the pressure of an irresistible necessity.

In March Secretary Chase succeeded in getting Congress to make the demand-notes issued in accordance with the authorization of July, 1861, and the ten millions in the following February, legal tender, so that they might circulate in common with the others. On June 7, 1862, the Secretary requested the issue of $150,000,000 more

legal tenders, and Congress passed a bill on July 11, 1862, authorizing their issue, of which $50,000,000 should be in denominations less than $5.

The premium on gold had advanced very rapidly after the issue of legal tender, and that metal was heavily exported. By August, 1863, all specie had disappeared from circulation, consequent upon the suspension of specie payments, and on July 17 a bill was passed making it legal to use postage stamps in payments to the Government not exceeding $10. The lack of small change was so great that corporations and business men had begun to issue "shin-plasters," as they were called, and municipalities issued small notes receivable for taxes or payable in lawful money. The law authorizing the use of postage stamps also forbade this mock currency. The needs of the country were so great that Congress had passed an act on March 3, 1862, permitting the Secretary to issue not to exceed $50,000,000 in currency in fractional parts of a dollar. This was kept in circulation until 1876, when it was replaced by silver.

The next issue of paper money was to pay the soldiers, and by an act of January 17, 1863, the issue of $100,000,000 was authorized for this purpose.

The sources of income which the Government enjoyed had proved so insufficient that the issue of legal-tender notes had been very rapid after it had once begun. The banks refused further loans after the $150,000,000 had been advanced, and the sale of bonds was very slow. The law authorizing the payment of interest on deposits with the sub-treasurers up to $25,000,000 was taken advantage of by New York clearing house bankers so quickly that the amount was soon afterward raised* to

* June, 1864.

$150,000,000. In effect these deposits formed a loan from the banks to the Government.

Other temporary loans were effected in the form of certificates of indebtedness issued to creditors of the Government, and for a time the demands on the treasury were thus met by the Secretary. The bonds not having sold rapidly the experiment was made of inflating the currency to such an extent that money would be so plentiful that people would be glad to pay it back to the Government for its bonds, and a bill for a loan of $900,000,000 was prepared on that basis. Before the bill was passed, the requirements of the army and navy were such as to cause the passage* of the bill before mentioned, authorizing the issue of $100,000,000 legal tender.

In March, 1863, Congress passed a bill authorizing the Secretary to effect a loan of $300,000,000 in that year, and $600,000,000 the following year, the bonds to run not less than ten nor more than forty years. The Act also authorized the issue of $400,000,000 in treasury-notes payable in three years, which might be made legal tender if the Secretary thought best. The issue of $150,000,000 in legal tender notes was authorized if the exigencies of the service demanded it.

Through the agency of Jay Cooke the sale of the five-twenty six per cent bonds was successfully carried out in 1863, but the effort to sell the five per cent bonds in the same manner was a failure. The demands for money were then met by the issue of certificates of indebtedness, and by a loan from the banks of $50,000,000, for which they took interest-bearing legal-tender notes. Later in 1863 $35,000,000 more in legal-tender notes were offered through Jay Cooke and Company. By the issues of

* January 17, 1863.

$168,471,450 in interest-bearing notes, and the money received from taxes, etc., Secretary Chase was able to meet the demands of the Government.

On July 1, 1864, Secretary Chase was succeeded by William Pitt Fessenden, United States Senator from Maine. As the organization of a National banking system had been recommended in the first report made by Secretary Chase, we will revert to the early part of his administration in order to trace, in another chapter, the history of the National Bank Act.

Chapter XII.

THE NATIONAL BANK ACT.

In 1861 there were 1,601 State banks in existence, possessing a capital of $429,000,000. These banks had in circulation over ten thousand kinds of notes. In New York the free-banking system was working satisfactorily, and in New England the Suffolk bank system met the demands of the times. The opposition of the Democratic party had successfully prevented, up to that time, any establishment of a Government bank. Secretary Chase was anxious to replace the system of State banks with one of National banks, and his report to Congress in December, 1861, contained two plans, the first of which contemplated the gradual withdrawal from circulation of the notes issued by private corporations and the substitution therefor of United States notes, payable in coin on demand, in amounts sufficient for the useful ends of a representative currency. His second plan contemplated the preparation and delivery of notes to institutions for circulation under National direction, secured by the pledge of United States bonds, and convertible into coin.

The views of the Secretary were embodied in a bill prepared by Mr. Spaulding and other members of the Committee on Ways and Means. The bill was a combination of the best features of the banking laws of the several States. It was adversely reported upon by Thaddeus Stevens, chairman of the committee, probably because the issue of legal-tender notes at that time seemed

to be the only immediate relief for the pressing need of the Government.

In his report in December, 1862, Secretary Chase again urged the establishment of the system. In this second report he was ably supported by President Lincoln and by the banks, the opposition from the latter source which had been encountered in 1861-62 having been changed into support. Three bills were introduced in the House, but none was acted on. In the Senate a bill which had been introduced by Senator Sherman was passed February 12, 1863, and on being sent to the House was passed by that body February 20, after a short debate. Under this bill five or more persons could form a banking association upon the deposit of $50,000 or more of any kind of Government interest-bearing bonds with the United States treasurer, for which they could receive circulating notes to the amount of ninety per cent of the market value of the bonds deposited, provided it did not exceed their par value. The notes should be legal tender except for duties on imports and for interest on Government bonds. A tax of one-half of one per cent on the circulation was imposed in lieu of taxes on the bonds. The banks should comply with the law of States concerning interest; they should keep twenty-five per cent of the value of their notes on hand in lawful money, and their notes should be redeemed at the place of issue. The amount of notes to be issued was fixed at $300,000,000, one-half of that sum to be in States and Territories determined by population, the other half to be distributed in reference to existing bank capital, business, and resources. The Bureau of Currency was established in the Treasury department, governed by a Comptroller appointed by the President.

The President appointed Hon. Hugh McCulloch as Comptroller of the Currency on May 9, 1863. Mr. McCulloch had been opposed to the National bank system, as he was president of the State Bank of Indiana, but he was a very efficient officer. The first association incorporated was the First National Bank of Springfield, Mass., February 20, 1863, the day the bill passed; but the first one authorized to do business was the First National Bank of Philadelphia, on June 20, 1863.

When Comptroller McCulloch made his first report in November, 1863, there had been organized 134 banks. There was delay in issuing the National bank notes, and none appeared until December 21, 1863.

On June 3, 1864, the law was superseded by a new act, entitled, "An Act to provide a National currency, secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof." The principal provisions of this law were: A separate bureau in the treasury department of which the Comptroller of the currency was the chief officer; that banking associations of not less than five persons could be formed with a capital not less than $100,000, and in cities of 50,000 population or over with a capital not less than $200,000; that banks with a capital of not less than $50,000 might be established with the approval of the Secretary of the Treasury in any place whose population did not exceed 6,000; that such associations should exist for twenty years; capital to be divided into shares of $100; stockholders to be equally and ratably liable to the extent of the stock for the debts and contracts of the bank; every association to transfer to the United States Treasurer United States bonds to an amount not less than $30,000, and not less than one-third of the capital stock paid in;

that upon proper examination it should receive from the Comptroller circulating notes equal in amount to ninety per cent of the current value of the bonds transferred, but not exceeding ninety per cent of the par value of said bonds; notes to an amount not exceeding $300,000,000 to be issued under the Act; notes to be receivable for everything except duties on imports, and payable for everything save interest on the public debt, and in redemption of the National currency; interest to be regulated by local laws, but not to exceed seven per cent; each bank in St. Louis, Louisville, Chicago, Detroit, Milwaukee, New Orleans, Cincinnati, Cleveland, Pittsburgh, Baltimore, Philadelphia, Boston, New York, Albany, Leavenworth, San Francisco and Washington at all times to have on hand in lawful money of the United States at least twenty-five per cent of the amount of its notes in circulation and its deposits, and all others to keep a reserve of not less than fifteen per cent; in the months of January and July one-half per cent of the average amount of its notes in circulation, and a duty of one-quarter per cent each half-year upon the average amount of its deposits, and a duty of one-quarter per cent each half-year on the average amount of its capital stock beyond the amount invested in United States bonds, to be paid; that any State bank could become a National bank under this Act.

The State banks had been gradually inflating their issues of paper ever since the suspension of specie payments. It was considered very desirable to do away with this voluntary currency, which had become very unstable and was subject to considerable discount, and replace it with a uniform National currency. The change from State to National banks was much desired, and Legisla-

tures had passed laws to aid State banks to reorganize under the National system. The new law did away with the restriction that National banks should be known by numeral titles, and permitted converted State banks to retain the distinctive names under which business had formerly been carried on. The first National bank to be known by a title other than a numeral one was the National Exchange Bank of New York City, authorized to do business March 16, 1864.

In his report for November, 1864, Comptroller McCulloch stated that two hundred and eighty-two new banks had been organized during the year, and sixty-seven State banks had reorganized. The reorganization took place without any bad effects,—indeed, State bank stock appreciated by the change.

On March 3, 1865, Congress enacted that in forming National banks preference should be given to State banks not having over $75,000 capital, when applying before July of that year, and a tax of ten per cent per annum was levied on all State bank notes issued after July 1, 1866. This hastened the reorganization materially. The Act also provided that notes should be issued to these banking associations according to their capital, as follows: To each with a capital not exceeding $500,000, ninety per cent; to each exceeding $500,000 and not above $1,000,000, eighty per cent; to each exceeding $1,000,000, but not above $3,000,000, seventy-five per cent; to each exceeding $3,000,000, sixty per cent; that $150,000,000 of the entire amount of circulating notes authorized to be issued should be apportioned to associations in the States, in the District of Columbia, and in the Territories, according to representative population, and the remainder should be apportioned by the Secretary of the Treasury

among associations formed in the several States, District of Columbia, and in the Territories, having due regard to the existing banking capital, resources, and business of such State, District, or Territory.

Chapter XIII.

THE NATIONAL BANK ACT, CONTINUED.

In order to secure a clear idea of the history of the currency and bond issues of the Treasury Department, all of which are so intimately related to the development of banking, it is desirable to return to the opening of the administration of Mr. Fessenden as Secretary of the Treasury, July 1, 1864. He found the cash balance in the Treasury to be $18,842,558; the unpaid requisitions were $71,814,000; the certificates of indebtedness which were outstanding amounted to $161,796,000, while the daily expenditures exceeded two and a quarter millions. To meet the demands of such a condition was a serious matter. The revenue was about $15,000,000 for June, but that was but a third of the required sum. He desired to avoid issuing more certificates of indebtedness, and he was determined to issue no more legal-tender notes, could he avoid it. He therefore pushed the sale of bonds with good success. Gold being insufficient to pay the interest on the National debt, many of the securities were replaced by those on which the interest was payable in currency, the interest being greater. In this way the Treasury was carried along carefully by Mr. Fessenden, who gave way to Mr. Hugh McCulloch on March 7, 1865. In March the new Secretary issued $70,000,000 three-years treasury-notes, with interest payable in currency. In April the fall of the Confederacy showed him the necessity of having an immense amount of money to

pay off troops and send them home. He therefore issued $530,000,000 in 7.3 notes, and through Jay Cooke realized the money sooner than had been the case with any previous loan. That loan was the last to raise means to carry on the war, and generously had the people responded to the calls for money oftentimes repeated, the payment of which was only possible by the success of the Government's endeavor to quell the rebellion.

A brief review of the financial measures taken by the Southern Confederacy to carry out its part of the momentous struggle should not be omitted. In 1861* there were State banks scattered throughout the Southern States, as in the North. The banks in eleven Southern States had a circulation of $74,000,000, secured by reserves of specie in the various banks.

The treasury of the Confederacy was, of course, an empty office upon the organization of that Government. On February 28, 1861, President Davis† was authorized to borrow $15,000,000, for which certificates of stock, or bonds, were issued, payable in ten years at eight per cent interest. To secure the payment of the interest and principal an export tax of one-eighth of one per cent per pound was levied on cotton. On March 9, $1,000,000 in treasury-notes was issued, payable in one year at 3.65 per cent. On May 16 a loan of $50,000,000 in bonds was authorized, or in lieu of $20,000,000 of these treasury-notes might be issued. The notes were payable in two years in specie, and they were convertible into bonds payable in ten years. On August 19 other treasury-notes were authorized, amounting, with those issued, to $100,000,000, convertible into twenty-year bonds. On December 19, $10,000,000 in treasury-notes were issued to pay the advance of the

* Report of Comptroller of Currency, 1876, p. 92.
† Jefferson Davis' "Rise and Fall of the Confederate Government," vol. 1, p. 486.

banks, and on December 24 $80,000,000 more were authorized. On April 12, 1862, treasury-notes, certificates of stock, and bonds were authorized to be issued to the amount of $215,000,000. On April 17, $5,000,000 in treasury one and two dollar notes were authorized. On September 19, 1862, $3,500,000 in bonds was authorized to pay for six war vessels. On September 23, $5,000,000 in five-dollar treasury-notes and $50,000,000 in bonds were authorized. On March 23, 1863, an effort was made to take some of the issues of treasury-notes out of circulation by funding them, and the monthly issue of $50,000,000 in fundable treasury-notes without interest, and the issue of $5,000,000 in denominations of two dollars, one dollar and fifty cents, were authorized. The issue of $100,000,000 in six per cent coupon bonds was authorized on that day, the interest to be paid in currency or cotton certificates. On February 17, 1864, an attempt to reduce the redundant currency to the needs of business was made, and a new issue of treasury-notes authorized until April 1. As in the North, the inflation of the currency had resulted in wild speculation, enormous prices and appreciated specie. An issue of $500,000,000 in six per cent bonds was also authorized, for the payment of the interest on which the specie export taxes were pledged. To pay the interest on its bonds, an internal war tax had been levied in 1861 by the Provisional Government; but in 1862 opposition to internal taxation had caused it to be a partial failure.

The operation of the funding law of February 17, 1864, was successful in reducing the treasury-notes in circulation. It was estimated that $300,000,000 had been funded; but $200,000,000 in new notes had been issued while this was going on, so the redundancy of the cur-

rency was but slightly affected, and this, as well as the decreasing chances of the ultimate redemption of the notes, caused them to be much depreciated. A foreign loan of £2,200,000, in bonds convertible into cotton, had been realized in London and Paris in 1863. On October 1, 1864, the home debt of the Confederacy was estimated at $1,126,381,095.

At the close of the war the State banks in the South which had been enabled to preserve their specie capital unimpaired were in shape to redeem their issues of notes. Those which had invested in Confederate securities were forced to close up business. Thus we find that by reason of the insufficient banking privileges in the South, and the taxation of State bank notes in the North, the growth of National banks was necessarily large.

On March 9, 1865, Mr. McCulloch was made Secretary of the Treasury, and Freeman Clarke became Comptroller. In the latter's report for that year he states that nine hundred and twenty-two of the one thousand six hundred National banks then organized were converted State banks. One of the first effects of the rapid reorganization of State banks was a diminution of the currency in circulation, as all the State banks were obliged to reduce their circulation below the amount prescribed by law before any National circulation would be given them. The amount of National bank-notes in circulation October 1, 1865, was $171,321,903; of State bank notes, $78,867,575, and of legal tender and fractional currency, $704,584,658.

The operation of that portion of the National bank Act governing the distribution of circulation worked unjustly to the West and South, and the Comptroller desired that the deficiency of circulation in those sections

should be remedied, particularly with reference to the prostrate South.

A plan was adopted* by which the sum of $54,000,000 was to be furnished the banking associations (existing and to be organized) in the States and Territories having less than their proportion under the apportionment contemplated in the Act of March 3, 1865. The applications were to be made within a year, and at the close of that time the amount unapplied for should be awarded to applicants from other localities where the deficiency was greatest. When the amount should have been distributed, $25,000,000 was to be withdrawn from the banks having an excess, and distributed to banks with deficient circulation.

The issue of $54,000,000 in bank circulation was counterbalanced by the cancellation of a similar amount of three per cent certificates issued in 1867 and 1868. Upon the issue of the bank-note circulation as provided, the Comptroller found the provision for taking away $25,000,000 from banks having an excess of circulation impossible to execute; so he recommended that the law be repealed and $5,000,000 additional circulation be yearly issued for five years. The bill containing that provision was vetoed by President Grant. A bill was then passed by Congress on June 20, 1874, which provided that $55,000,000 should be withdrawn and redistributed. The same law also provided for the voluntary surrender of circulating notes by any bank, by depositing not less than $9,000 with the Treasurer and withdrawing the bonds that secured them. This law caused a reduction of $30,869,655 before the close of 1877.†

* Act of July 12, 1870.

† Comptroller's Report for 1878.

By an Act* of 1875 the restriction on the issue of bank-notes was removed, and the Secretary of the Treasury was directed to retire legal-tender notes to the amount of eighty per cent of the National bank notes issued thereafter, until the amount of legal tender outstanding should be reduced to $300,000,000. Under the action of this law the Secretary had retired $35,318,984 in legal-tender notes when Congress passed a resolution† directing him not to retire any more legal tenders, but to reissue them and keep them in circulation. At that time the legal-tender notes in circulation amounted to $346,681,016.

On October 1, 1881, two thousand one hundred and forty-eight National banks were in operation. The charters of many of them were to expire in 1882 and 1883. That of the first bank chartered expired January 1, 1882, and from that day to February 25, 1883, the charters of three hundred and ninety-three would have expired had not Congress made a law under the provisions of which the charters could be renewed. There was a very long debate on the subject, as at that time there seemed to be a widespread hostility to the issue of notes by banks without the payment to the Government for the privilege, but the law passed as stated. It is true that banks desiring to continue business in that form could have organized anew, but that would have required much trouble and annoyance, and the banks would have been much weakened. The law provided for a surplus formed by carrying ten per cent of the net profits of the bank for each preceding half-year to a surplus fund until it should equal twenty per cent of the capital stock. This surplus would necessarily have been distributed among the stockholders on the reorganization of the bank, and to avoid

* The Resumption Act.

† May 31, 1878.

this weakening action was one of the inducements which led Congress to provide for extending the life of National banks whose charters were about to expire.

CHAPTER XIV.

THE RESUMPTION OF SPECIE PAYMENTS.

WE have followed the history of the issue of legal-tender notes and bonds by the Government during the Civil War, of the organization of the National banking system during that period of financial disturbance, and its operation up to the time of the renewal of the charters of National banks in 1882. Let us now revert to the efforts to resume specie payments,—an epoch of much importance in our financial history.

The banks and the Government suspended specie payments on Monday, December 30, 1861. The general impression was that resumption would be postponed but a short time after the close of the war; but no one had any conception of the enormous inflation which was to take place in the currency circulation of the country, or at what cost resumption would finally be secured. Had the financial advisers of the Government had any such conception it is doubtful if they would have issued so many millions of legal-tender notes as they did, even though constrained as they were by necessity of the sternest sort.

Mr. McCulloch was Secretary of the Treasury when the war closed, and he was strongly in favor of resumption of specie payments, "a departure from which, although for a time being a necessity, is no less damaging and demoralizing to the people than expensive to the Government."

The Secretary was endorsed by President Lincoln, by the press, and by various commercial organizations; but the measures to be taken were necessarily careful ones.

In 1865 gold reached the price of 233¾. The currency had been inflated from $200,000,000 in 1860 to $700,000,000, and the result was wild speculation, unwise obligations, and high prices. Resumption could only be brought about by bringing notes and gold to an equal value, and this could be done only by reducing the amount of notes in circulation. This reduction meant a fall in prices, and a general derangement of values.

Secretary McCulloch recommended Congress to enact that interest-bearing legal-tender notes should cease to be legal tender after their maturity,—believing that this would aid the Government's efforts to retire them. He also asked authority to sell six per cent bonds in order to retire the compound-interest and the United States notes. On February 1, 1866, a bill authorizing him to receive treasury-notes or other obligations in exchange for bonds, was reported by the Ways and Means Committee of the House, and occasioned a long debate, during which an amendment was made withdrawing authority to sell the bonds abroad payable in the currency of foreign countries. The bill was recommitted, and upon its being reported a second time contained a proviso that "of United States notes not more than ten millions may be retired and cancelled within six months from the passage of this act, and thereafter not more than four millions in any one month." As amended the bill passed the House and Senate.*

The banks held large amounts of the interest-bearing notes as lawful reserve, and as bank circulation increased

* April 12, 1866.

legal-tender notes were also held as reserve, which effectually kept them out of circulation. The banks also held large numbers of compound-interest notes of early maturity, to meet the payment of which Congress on March 2, 1867, authorized the issue of $50,000,000 in three per cent certificates, payable on demand. The legal-tender notes were reduced somewhat irregularly until the meeting of Congress in December, 1868, at which time the money market was stringent and the opposition to further contraction was very strong. In February, 1868, Congress suspended the Secretary's authority to retire legal-tender notes, the currency having been contracted $142,439,958.

In October, 1870, Secretary Boutwell, who succeeded Mr. McCulloch on March 11, 1869, issued $1,500,000, in legal-tender notes to relieve a Wall street speculative stringency, for which he was generally criticised, and

QUARTER-EAGLE 1870.

in the next year he issued $4,637,256 more; but, being unable to withstand the very pointed disapproval which was manifested, he speedily retired most of it, and his successor, William A. Richardson, retired the remainder.

In 1873 a panic occurred which carried down large numbers of business houses, and Secretary Richardson issued legal-tender notes in payment of bonds purchased, and the House passed a bill on March 23, 1874, fixing the maximum amount of legal-tender notes which could be issued at $400,000,000. A similar bill was amended

in the Senate by authorizing an additional issue of $46,-000,000 of bank notes for distribution to the South and West. The House passed this bill April 14, 1874, and President Grant vetoed it April 22, and thus the attempt to expand the currency again was defeated.

In the House the free banking bill was then passed, and the Senate amended it by fixing the maximum amount of legal tender at $382,000,000, and withdrawing $55,-000,000 in currency from the Eastern banks and assigning it to the banks of the South and West and Territories.

GOLD DOLLAR.

Then came "An Act to provide for the resumption of specie payments," which became a law January 14, 1875. This provided for the redemption of fractional currency by the coinage and issue of silver coins of ten, twenty-five and fifty cents denominations. The coinage of silver was provided for and seigniorage abolished. The restriction on the amount of bank notes was removed. The Secretary was authorized to retire $80 in legal-tender notes for each $100 issued by the banks until the legal tender in circulation should be reduced to $300,000,000. The first day of January, 1879, was fixed as the time when specie payments should be resumed.

In December, 1876, Secretary Morrill reported that silver subsidiary coins had been issued to the amount of $22,000,000, and $13,000,000 of the fractional currency had been redeemed. The work of retiring legal-tender notes had progressed in proportion to the issue of National bank notes.

On March 9, 1877, Senator John Sherman became Secretary of the Treasury. He was the proposer of the plan of resumption, and it was quite fitting that he should have a share in its successful operation. On May 31, 1878, he was directed by Congress to retire no more legal-tender notes and to keep the amount then outstanding, $346,681,016, in circulation, the reduction of the currency since January 14, 1875, having been $35,318,984.

By selling bonds and by hoarding the surplus revenue, Secretary Sherman had on hand $133,508,804.50 in coin when resumption day came around. By an arrangement made with the banks, and by making the assistant treasurer of the United States a member of the New York clearing house, resumption was made much easier than it would have been without the co-operation of the banks.

They agreed on November 12, 1878, that checks presented to the assistant treasurer by any clearing house bank should be payable in United States notes; that gold coin should not be received as special deposits, but as lawful money only; that special exchanges of gold checks at the clearing house should be abolished; clearing house balances to be paid either in gold or United States legal tender, and gold special accounts to be discontinued.*

From the publication of a statement of this action resumption was sure and certain. On December 17 paper touched par for the first time in this country for sixteen years.† For a month previous to the day fixed by law for resumption to begin, it was practically accomplished, and on January 1, 1879, the ghost which had haunted the finance ministers of the country for seventeen years was laid, and resumption was an accomplished fact.

* New York *Tribune*, November 13, 1878.
† New York *Times*, December 18, 1878.

Chapter XV.

BANKING SINCE 1882.

The Act* permitting the extension of the corporate existence of National banks for twenty years provided for an examination of the applying bank, and, if a satisfactory condition was found, the Comptroller could issue a certificate for the proposed extension. It also provided for the withdrawal of share-holders who objected to the extension, and that stockholders in the expiring association should have the preference in the allotment of shares in the new association. The circulating notes of the association issued to it previous to the extension were to

SIERRA LEONE SILVER DOLLAR, 1791.

be retired by redemption at the Treasury, and new notes issued to the extending bank. Banks not extending were obliged to deposit lawful money for the retirement of their notes. The action of this law will be noted later.

On January 1, 1884, a receiver was appointed for the New York and New England railroad. This was fol-

* Act of July 12, 1882.

lowed by the troubles of the Oregon and Trans-continental Company and the failure of the North River Construction Company. Other failures occurred in February, March and April, and the general financial uneasiness developed into a regular panic by the failure of the Marine National Bank of New York, the firm of Grant and Ward soon following, and the defalcation in the Second National Bank of New York of over three million dollars. The crisis culminated May 14 with the failure of the Metropolitan National Bank of New York, and others more or less important followed in May and June. On the afternoon of May 14 the New York Clearing House decided to settle balances by certificates of deposit based on bills

SKILLING PIECES OF DANISH WEST INDIES.

receivable and securities, approved by a committee. Loan certificates were issued to the Metropolitan Bank based on its securities, and it resumed business the next day. The panic was thus stayed and credit gradually revived.

The original National Bank Act of February 25, 1863, contained a provision that every National bank should at all times have on hand in lawful money an amount equal to at least twenty-five per cent of the aggregate amount of its notes in circulation and deposits. The Act of June 3, 1864, which is usually called the National Bank Act, provided that every National bank in seventeen cities mentioned should have a reserve of twenty-five per cent of its circulation and deposits, and every bank in other

cities should have a reserve of fifteen per cent of its circulation and deposits.

In the Act of June 20, 1874, this provision was changed and the banks were thereafter relieved from keeping on hand any amount of money whatever by reason of the amount of their respective circulations; but the moneys required by that section to be kept at all times on hand were to be determined by the amount of deposits. This Act also required every National bank to keep an amount of lawful money equal to five per cent of its circulation on deposit in the United States Treasury

COIN OF HAYTI.

as a fund for the redemption of its circulation, this fund to be a part of its lawful reserve.

On March 3, 1887, an Act was passed which provided that whenever three-fourths of the National banks in any city of the United States with a population of fifty thousand people should make application to the Comptroller, asking that their city should be added to those in which banks are required to keep twenty-five per cent of their deposits on hand, the Comptroller should have power to grant such request; also that when three-fourths of the National banks in a city of two hundred thousand people make application to be a central reserve city, like the City of New York, in which one-half of the lawful money reserve of the National banks located in other reserve cities may be deposited, the Comptroller has the authority, subject to the approval of the Secretary of the Treasury,

to grant such request, and all National banks shall keep twenty-five per cent of their deposits on hand.

"Originally," says the Comptroller,* "all associations, wherever located, were required to keep, either in cash or subject to sight draft, funds in hand equal to at least twenty-five per cent of all obligations payable on demand. Subsequently a distinction was made between associations in certain-named cities and those located elsewhere, and the latter were required to keep only fifteen per cent reserve upon the aggregate of deposits and circulation. The amount that might be kept with redemption agents was limited to three-fifths of fifteen per cent for associations generally, and to one-half of twenty-five per cent for those in reserve cities, and in the latter case New York was the only place in which the banks in other redemption cities might have redemption agents.

"At a later period the fund to be kept for the redemption of circulation was separated from the remaining reserve to be held against deposits; it was fixed at five per cent of the outstanding circulation, and was required to be kept on deposit with the Treasurer of the United States. Besides being specifically devoted to the redemption of circulation, this fund is also authorized to be counted as part of the reserve against deposits.

"Simultaneously with this provision as to the amount and location of the redemption fund the banks were relieved of the obligation to keep a reserve on circulation, but were required to keep in reserve funds to the amounts represented by fifteen per cent and twenty-five per cent respectively upon their deposit.

"The new regulation as to redemption of circulation dispensed with redemption agents, but the Act of June 20, 1874, re-enacted the provision as to the proportion of

* Comptroller's report for 1887.

reserve that might consist of balances due from approved associations in the cities formerly named as cities of redemption. These cities thus came to be called 'reserve cities,' " and in 1887 the term was formally incorporated in the law.

In the twenty-fifth annual report of the Comptroller of the Currency, December 1, 1887, there is given the following statistical information which shows the condition of the National bank system of the United States on October 31, 1887:

NUMBER OF NATIONAL BANKS ORGANIZED, IN LIQUIDATION, AND IN OPERATION, WITH THEIR CAPITAL, BONDS ON DEPOSIT, AND CIRCULATION ISSUED, REDEEMED, AND OUTSTANDING ON OCTOBER 31, 1887:

States and Territories.	Banks.			Capital stock paid in.	U. S. Bonds on Deposit.	Circulation.		
	Organized.	In liquidation.	In Operation.			Issued.	Redeemed.	Outstanding.*
Maine	83	10	73	$10,335,000	$5,540,950	$34,456,960	$26,720,751	$7,736,209
New Hampshire	54	5	49	6,205,000	4,107,300	21,878,125	17,188,657	3,689,468
Vermont	63	14	49	7,560,000	3,668,400	30,271,420	25,404,487	4,866,933
Massachusetts	266	15	251	95,940,500	34,557,800	292,532,485	240,305,630	52,226,855
Rhode Island	64	3	61	20,340,050	4,596,800	61,579,095	51,181,338	10,397,757
Connecticut	96	13	83	24,644,370	10,245,750	81,079,940	66,652,513	15,427,427
Eastern States	626	60	566	165,030,920	62,717,000	521,798,025	427,459,376	94,338,649
New York	425	101	324	86,339,700	30,387,200	264,357,365	226,185,206	38,172,159
New Jersey	92	11	81	13,025,120	7,013,100	48,182,500	40,059,603	8,122,897
Pennsylvania	354	51	303	66,607,090	19,098,500	184,819,465	148,236,096	36,583,369
Delaware	17	....	17	2,083,085	1,682,700	6,358,825	4,884,648	1,474,177
Maryland	51	3	48	14,509,900	2,662,450	36,598,780	29,974,776	6,624,004
Dist. Columbia	13	5	8	1,827,000	1,010,000	4,903,900	4,102,800	801,100
Middle States	952	171	781	184,393,815	61,853,950	545,220,835	453,443,129	91,777,706
Virginia	39	14	25	3,796,300	1,551,350	11,605,630	9,602,886	2,002,744
West Virginia	27	7	20	2,061,000	628,900	7,140,480	5,922,688	1,217,792
North Carolina	21	3	18	2,426,000	863,500	6,218,760	5,161,590	1,057,170
South Carolina	17	2	15	1,749,200	692,250	5,330,255	4,515,772	814,483
Georgia	27	6	21	3,070,520	888,500	7,763,670	6,324,053	1,439,617
Florida	12	2	10	550,000	217,500	319,450	160,387	159,063
Alabama	23	3	20	3,481,000	851,000	4,803,080	3,654,647	1,148,433
Mississippi	14	2	12	1,055,000	320,000	443,730	183,890	259,840
Louisiana	17	4	13	3,425,000	1,418,800	10,303,910	8,171,649	2,132,261
Texas	97	6	91	10,044,000	2,117,800	5,603,980	3,255,986	2,347,994
Arkansas	10	3	7	950,000	422,500	1,199,120	829,437	369,683
Kentucky	81	13	68	13,200,400	3,925,000	33,132,245	25,918,940	7,213,305
Tennessee	56	16	40	7,485,000	1,594,250	10,618,300	8,567,007	2,051,293
Southern States	441	81	360	53,296,420	15,791,350	104,482,610	82,268,941	22,213,669
Missouri	77	27	50	11,826,000	1,412,050	10,395,665	13,803,212	2,592,453
Ohio	208	82	216	41,058,140	15,219,950	96,277,840	75,411,112	20,866,728
Indiana	152	59	93	11,704,500	5,010,800	49,870,755	42,109,198	7,761,557
Illinois	243	65	178	29,286,500	5,848,500	49,059,165	41,344,028	7,715,137
Michigan	149	41	108	14,546,050	3,114,750	26,910,810	22,276,128	4,643,682
Wisconsin	89	32	57	5,210,000	1,680,500	12,164,100	9,875,200	2,288,840
Iowa	176	47	129	10,132,300	2,856,000	20,965,710	16,903,900	3,071,810
Minnesota	76	18	58	13,753,700	2,112,950	11,372,770	9,157,334	2,215,436
Kansas	162	21	141	10,932,520	2,848,000	6,799,070	4,085,567	2,713,503
Nebraska	110	6	104	8,415,550	1,915,000	5,360,730	3,330,716	2,030,014
Western States	1,532	398	1,134	156,835,240	42,054,500	295,185,615	238,386,455	56,799,160
Nevada	3	1	2	150,000	36,500	200,720	183,693	17,027
Oregon	23	....	23	1,800,000	644,800	1,426,120	755,630	670,490
Colorado	40	9	31	2,755,100	926,500	4,114,200	3,045,846	1,068,414
Utah	10	3	7	850,000	390,000	1,465,910	1,064,885	401,025
Idaho	6	....	6	350,000	92,800	394,070	306,415	88,255
Montana	22	5	17	2,000,000	500,000	1,583,700	1,112,186	471,604
Wyoming	8	....	8	1,075,000	273,750	454,380	283,755	170,625
New Mexico	10	1	9	850,000	270,000	1,381,530	1,023,007	360,023
Dakota	69	7	62	3,775,000	992,500	1,914,100	948,411	965,779
Washington	23	3	20	1,475,000	317,500	1,013,440	447,622	565,718
Arizona	1	3	1	100,000	25,000	88,700	51,230	37,500
California	36	3	33	6,875,000	1,911,250	3,189,000	1,460,065	1,728,725
Pacific States & Territories	254	35	219	22,055,100	6,411,200	17,230,390	10,681,245	6,546,145
Add for mutilated notes	....	....	....	....	....	....	....	125,945
Total Currency banks	....	....	....	....	....	1,483,917,475	1,212,242,146	271,675,329
Add gold banks	....	....	....	....	....	3,465,240	3,225,311	239,929
United States	3,805	†745	†3,060	581,011,795	188,828,000	1,487,382,715	1,215,467,457	272,041,303

* Including $102,826,136 for which lawful money has been deposited with the Treasurer of the United States to retire an equal amount of circulation which has not been presented for redemption.

† One bank restored to solvency and resumed business, making total going banks 3,061.

As the laws now stand* a National banking association may be formed by any number (not less than five) of natural persons, and any banking corporation having a State or Territorial charter may be converted into a National banking association. Every person applying for information as to the formation of a National bank, or the conversion of a State bank, is supplied with a copy of the National bank laws and a book of instructions as to the practical steps to be taken in effecting either of these purposes. He is also requested to cause a formal notice to be filed, setting forth the name of the place at which the bank is to be located, the title selected, and the names of at least five among those who intend to subscribe for the capital stock. After notice has been filed the person or persons acting in the matter are furnished with blank

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forms to be used in effecting an organization, and the title which they have selected, if it is approved, is reserved for them for a reasonable period. The forms sent include articles of association, organization certificate, certificate upon which officers and directors are to set forth the facts which it is necessary for the Comptroller to know before authorizing the bank to begin business, oaths of directors, and a bank order for circulating notes. As soon as these papers are returned, duly executed, and all the requirements of the law have been complied with by the corporators, the Comptroller's certificate to that effect is issued. The requirements of law for the formation of

* Comptroller's report for 1887, p. 55.

new banks are simple and reasonable, the only one appearing onerous being that which requires the bank to deposit in the Treasury certain amounts of United States registered bonds bearing interest.

Under the Act of February 25, 1863, National banking associations were required to deposit with the Treasurer United States bonds to the amount of one-third their paid-in capital. In 1864 this provision was amended by fixing $30,000 as the minimum amount of bonds for any bank.

The Act of June 20, 1874, permitted associations to withdraw any bonds they might have on deposit in excess of $50,000. Obviously this affected only banks of which the capital exceeded $150,000.

The Act of July 12, 1882, specified that banks of which the capital does not exceed $150,000 should be

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required to keep on deposit bonds to the amount of one-fourth of their capital.

By a special provision of law banks and banking corporations having State charters may be converted into National banks upon satisfying the Comptroller of the Currency that they are in sound financial condition, and upon complying with such of the general requirements of the law as are applicable to them.*

The following table, taken from "The Banker's Almanac and Register" for January, 1888, furnishes a summary of the banks and bankers in the United States:

* The number of State banks which have been converted into National banks under the provisions mentioned is 586. Of these sixty-nine have gone into voluntary liquidation, and nineteen have gone into insolvency, the year 1864 carrying fourteen such banks under.

BANKS AND BANKERS OF THE UNITED STATES.

	National.	State.	Sav'gs*	Private.†	Totals.
Alabama,	20	9		49	78
Arizona,	1	5		4	10
Arkansas,	7	13		20	40
California,	37	101	27	52	217
Colorado,	31	20		69	120
Connecticut	83	20	86	19	208
Dakota,	62	74		196	332
Delaware,	17	7		3	27
District of Columbia,	8	2		11	21
Florida,	11	4		27	42
Georgia,	21	31		71	123
Idaho,	6	3		16	25
Illinois,	178	31		441	650
Indiana,	93	28		156	277
Iowa,	129	126		423	678
Kansas,	149	248		365	762
Kentucky,	68	84		36	188
Louisiana,	13	8		14	35
Maine,	75	6	54	12	147
Maryland,	48	28		19	95
Massachusetts,	252	21	169	74	516
Michigan,	109	71		220	400
Minnesota,	57	74		152	283
Mississippi,	12	13		15	40
Missouri,	48	231		122	401
Montana,	17	5		11	33
Nebraska,	104	158		306	568
Nevada,	2	3		10	15
New Hampshire,	49	4	68	3	124
New Jersey,	81	16	26	6	129
New Mexico,	9	4		10	23
New York State (city excepted),	278	83	95	179	635
New York City,	46	61	23	77	207
North Carolina,	19	10		23	52
Ohio,	220	60		250	530
Oregon,	23	9		21	53
Pennsylvania,	306	116		243	665
Rhode Island,	61	12	32	7	112
South Carolina,	16	19		22	57
Tennessee,	40	43		20	103
Texas,	93	13		130	236
Utah,	7	2		8	17
Vermont,	49	3	27	2	81
Virginia,	25	57		30	112
Washington Territory,	21	4		14	39
West Virginia,	20	26		3	49
Wisconsin,	57	57		102	216
Wyoming,	8	1		12	21
Totals,	3,086	2,024	607	4,075	9,792

* These are savings banks proper, organized for the benefit of depositors. In other States it is impossible to separate them from those benefiting stockholders.
† Brokers are not included in this list.

It is quite unnecessary to point out that some radical changes must soon be made in the National Bank Act if National banks are to be allowed to continue in business. The rapid payment on maturity of the Government bonds, which the present law requires National banks to deposit with the Government as security for their circulation, and the carrying out of the policy of President Cleveland's administration in reducing the surplus in the Treasury by purchasing bonds before they mature, will soon diminish the Government bonds outstanding to such an extent that banks will be unable to secure their circulation with them.

The early approach of this condition of affairs has caused the preparation by the Comptroller of the Currency, W. L. Trenholm, of a bill for "An Act Relating to National Banking Associations." This proposed bill is printed in the Report of the Comptroller for 1887, and is a very voluminous document. If it becomes a law it will form a complete National banking code.

A careful examination of the plans submitted to the Comptroller of the Currency as solutions of the future of National banks has suggested to Comptroller Trenholm these three propositions as the only measures within the probability of adoption:

First: To increase the inducements for the banks to deposit United States bonds as a basis of National bank circulation.

Second: To provide by a new issue of bonds for a continuance of the present or some modified system of National bank circulation based on United States bonds.

Third: To allow the banks to issue circulation upon their general credit without requiring specific security to be deposited.